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Social Science Research,
Aid to Counterinsurgency

By THOMAS H. TACKABERRY

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TODAY THE PROBLEM OF WAR has dwarfed all others. Science and technology have created a situation which is unique in the history of mankind. The first day of war can decide whether or not a State will continue to exist. Although some people believe the weapons of mass destruction have created an international environment where the chances of war have been lessened, some interesting statistics tend to belie this belief. In the last 5,500 years there have been 14,531 wars, for an average of 3.18 per year; and in the last twenty years the frequency has increased to 5.2 wars a year. With these statistics, one can safely extrapolate that wars will continue.

Since achievement of the supreme objective of preventing war looks dim, statesmen are fervently pursuing the goal of keeping hostilities at the lowest possible level of intensity. No one seeks a conflict which promises mutual suicide. Consequently mankind has stepped close to the edge of chaos a number of times since World War II, but has sagaciously stepped back again. Yet imperfect man has not learned to live in peace, and since big wars carry cataclysmic risks, man has now turned to little wars. Whether nuclear weapons will ever again be used in combat or whether massive conventional forces will ever again clash on a battlefield are matters of conjecture. There is no conjecture, however, about the fact that guerrilla warfare is being waged or plotted in many parts of the world today. The pronouncements of the Soviet and Chinese Communist leaders have made it abundantly clear that this is the type

of conflict which will be waged relentlessly against the free world, that these so-called wars of national "liberation" are inevitable patterns in the development of their international policy.

At this juncture in history, therefore, the emerging nations are most critical to future world stability and human freedom. In a list of the world crises of the last decade, all except Berlin are in some way related to developing nations. These new States are emerging from colonial status. As free people they are impatient with slow reform. They are struggling for dramatic and immediate economic and political growth.

I

Changing Military Doctrines and Missions

WARS OF NATIONAL "LIBERATION" have brought about a change in the use of military power and a shift in the employment of components of that power. Military involvement is often required to counter subversion and insurgency. On the other hand, insurgency frequently comes long before events reach the stage when maximum physical force is appropriate or required. Since employment of United States military forces in the classical sense is not appropriate, or required, other components of military counterinsurgency must be used. These include psychological operations, unconventional warfare, civic action, and military aid, advice, and training. These capabilities have become the primary components of counterinsurgency. Furthermore, successful counterinsurgency is as much dependent on political, social, economic, and psychological factors as upon purely military factors, and sometimes more so.

A major distinguishing feature of counterinsurgency operations is that the battle situation is primarily an internal conflict within a developing nation, although outside antagonists may have incited the conflict or are exploiting it. United States military forces rarely come into direct conflict with a formally declared enemy; rather, their immediate targets are native insurgencies and the underlying social and political conditions which are provoking an internal conflict.

Furthermore, the primary strength of an insurgent group is not a strong military organization, with industrial support, but the discontent of the people within the nation, and thus the people themselves. The aims of the United States must be constructive, rather than destructive. They must seek to create internal conditions and encourage political, social, and economic systems which remove hunger, disease, poverty, oppression, and

other sources of discontent. In this sense the military establishment becomes a direct, positive instrument for human progress in directions that are compatible with U.S. national interests.

On the other hand, the primary instruments of action in the internal conflict situation can never be United States troops; they must be friendly indigenous groups. Therefore, the United States counterinsurgency mission—whether a military counterguerilla action, a civic action, or a psychological operation—must be accompanied by indirect influence and not through direct control. This influence cannot be limited to verbal persuasion alone, but must include all techniques of influencing the behavior of other persons outside the ambit of physical coercion and the command structure. Unfortunately the problem is compounded by the necessity for United States personnel to operate in a strange cultural environment and influence persons with different values, mores, beliefs, and attitudes.

II

Support of the People

IN THE LESS DEVELOPED STATES a social revolution is under way. Economically, sociologically, and sometimes politically, the people are searching for a better way of life. It must be recognized in any battle for control, therefore, that the rising expectations of the people must be considered. Dr. Franklin Lindsay, a member of the Gaither Committee, which studied national security policy, has said, "Just as control of the air has become a prerequisite for successful frontal warfare, so control of the population is a prerequisite for successful unconventional warfare."¹

In today's international conflict the victor may not be the one who boasts the more sophisticated arms or equipment. Today the advantage may more often lie with those who are successful in obtaining the support of the people—people who are sensitive to political, ideological, and sociological values and who are earnestly seeking answers to these problems; people whose vision may have been blurred by the blandishments of communism; people who may be politically ignorant or politically indifferent; and people whose main concern may be tonight's rice or tomorrow's fish.

One sentence in Che Guevara's dissertation on guerrilla warfare is illustrative of the situation: "All the facilities which make life easier are unfavorable for the guerrilla force." It is noteworthy that the Commu-

¹ F. Lindsay, "Unconventional Warfare," *Foreign Affairs*, January, 1962.

nist guerrillas in Vietnam have chosen, as primary targets for assassination, the health, education, and agricultural officials who are attempting to improve the condition of the people at the village level. The Viet Cong recognize the truth of Guevara's observation. They know that, as the things which contribute to a better life are increased, the ability of the guerrilla to survive and operate is correspondingly decreased.

III

Need for Social Science Research

IT IS IMPERATIVE, therefore, to attack the problems of the emerging States before these problems reach crisis levels, as has happened dramatically in Vietnam. The key is prevention! But how is prevention to be achieved? As United States elements have become engaged in the developing areas, they have discovered a gap in their knowledge about the problems of political evolution. Therefore, how does one go about creating a modern nation-State? How do post-colonial societies achieve stability in the modern world, when they have great economic and cultural differences among the segments of their populations?

In its struggle to contain the Communists' efforts toward world domination, the United States has relied principally on its superior advantages in the physical sciences. This is not surprising. Western culture generally interprets success and noteworthy accomplishments in terms of the physical sciences and their related technologies. But the most exciting and rewarding subject of research—man's behavior as an individual and as a social being—must not be slighted in "our race to the stars." The triumphs in science and technology have truly revolutionized man's life, yet the dreaded Four Horsemen of the Apocalypse—War, Conquest, Famine, and Death—still race disdainfully across the earth. The question arises: Are the nations of this world advancing toward a realizable Utopia?

In some respects the physical sciences have pushed civilization to the brink of annihilation. Can the social sciences bring rationality and understanding to this world of vastly different ethnic, social, religious, and political groups? No ready answer is available, but no one can deny that the social sciences have a potential capability to ameliorate measurably man's social, economic, and political problems. The pressing need today is for man to understand more about himself, his institutions, his capabilities and limitations, his total behavior, and more about other people and their behavior in order to benefit by the tremendous advancements in the physical sciences.

IV

Kinds of Research Required

WHETHER ONE IS CONCERNED with programs to alleviate political, social, or economic sources of discontent, with techniques of indirect influence, or with the social and political environment in which actions occur, the kind of underlying knowledge required is the understanding and prediction of human behavior at the individual, political, and social group levels. The systematic acquisition of such knowledge is the province of the behavioral and social sciences: psychology, sociology, anthropology, political science, economics, history, and international relations.

What kinds of social science research are needed to improve conditions in the developing areas? One of the most important problems for the social scientist is how to assess the specific conditions which improve or lessen the ability of Communists to convert local disorder into a political movement, which in turn may lead to active insurgency. An integral part of such research and analysis is to understand how the behavior of the United States can broaden or narrow the opportunities for the expansion of Communist influence in a country, long before the threat is clear-cut. This means that the domestic conditions in these countries must be understood with greater subtlety and sophistication than they are now. The consequences for these countries of the alternative courses of action available to the United States, as well as the interplay of political forces within each country, must be clearly understood.

Knowledge is desperately needed on how to turn revolutionary forces to the cause of human betterment. There has been much discussion about counterinsurgency, but very little directed toward an understanding of the art of insurgency or conspiracy. Revolutions are not always inimical to United States interests, and with proper knowledge and techniques, fomenting forces might be shaped to foster United States goals in a particular area.

Knowledge of how to prevent internal strife is a paramount need. An essential question that must be answered is: What should be the division of effort between repression or conciliation of dissident elements in a prerevolutionary situation? To what extent should one follow a hard or soft line, or a combination of the two, and in what ways and under what conditions?

Data are required on the ideas and images that people in emerging nations have about themselves, about their countries, their governments, their leaders, and their traditions.

Information is needed on the ideological preparation of the military

structure in developing countries. In struggling new States the native armies are frequently the most stable and capable national agencies.

Knowledge is required on the thinking and behavior of social groups in developing countries: professors, teachers, students, industrialists, the white-collar class, the village elders, the workers, the military elite, the journalists, and others who contribute to the formation and stabilization of the country.

Studies are needed on the relationships between personality and politics, national character and political development, psychological characteristics and military efficiency, national types and military performance.

Better understanding is required on the entire question of communication of values, not just communication of information.

More information is needed on Communist propaganda or persuasion techniques, and their efforts, in emerging States.

V

Taking Guesswork Out of Decisions

IN A GIVEN SITUATION, decisions on what to do, when to do it, and how to do it are matters of judgment and statesmanship, rather than of clear-cut answers achieved through research. But it is possible to take some of the guesswork out of decisions by providing an analysis of the political, social, economic, and psychological environment within which these decisions must be made.

Several years ago some of the in-house research agencies of the Armed Forces foresaw the urgent need for an intensive program in the social sciences. The Army Research Office, a branch of the Department of the Army's Office of the Chief of Research and Development, became the focal point for much research in the areas of human performance, foreign cultures, cross-cultural communication, and other human factor components of insurgency and counterinsurgency. While this has been a commendable effort, the distribution and use of this research could be improved.

An even more pressing need exists for a systematic and thorough analysis of the work that has already been completed. In many areas more research is *not* the answer; instead, a greater effort is needed to adapt the research findings to military use. Many studies have produced excellent data; now more effort should be concentrated on the development of social science technologies to discover ways and means to apply these data to counterinsurgency problems in the field.

There is inherent resistance within the Armed Forces against social science research, particularly in the psychological and sociological fields. This inhibition is largely psychological in character. It is based on an unconscious disapprobation of research which investigates the human mind and the characteristics and functions of familial, fraternal, and other subcultures in one's own society. To many people this type of research represents an immoral invasion of their privacy. Some military officers rationalize these feelings by claiming that: one, much psychological and sociological research only confirms things that are common knowledge anyway; or two, the products of this research are unreliable because human behavior is *per se* not amenable to quantification or prediction. These notions are unscientific and fallacious.

VI

A National Effort Needed

THE ARMED FORCES' RESEARCH REQUIREMENTS in the social sciences represent an endeavor which will take considerable money, scientific talent, and time. However, the need to assure the developing States the possibility of working toward maturity without the interference of Communist insurgencies is of critical importance to future world stability and peace.

The alternatives to a concerted effort in social science research probably fall into two categories:

One, the United States will continue to make costly mistakes in its relationships with alien cultures and societies, which will delay their becoming politically viable nations; or *two*, communism, which claims to have an affinity and appeal for the peoples of underdeveloped lands, will capture many of these nations because of ill-conceived and ineffectual actions by the United States.

The United States Armed Forces, of course, cannot do the job alone. It is a national task which demands a national response. In this respect, increased efforts must be made to encourage and elicit further the help of the universities and research institutions in the scientific aspects of this endeavor.

To illustrate the nature of the gigantic task ahead, a story attributed to Will Rogers is apropos. Years ago Will was talking about the enemy's submarine menace. He said he had the answer to that problem: "All we have to do is bring the ocean to a boil; that would force the submarines to the top. When they appeared on top, we could knock them

off." Someone asked him: "How do you get the ocean to boil?" He replied quickly, "Now just a second, I have only been outlining the general principles, and it is up to you to work out the details." This article apparently copied Mr. Rogers by presenting a problem without specific answers. But the answers, that is, the ways in which this social science research can be accomplished and properly used by the military establishment to counter subversion and insurgency, will only be determined after intensive research.

The military might of the United States can defeat the military symptoms of insurgency: the big challenge is to insure free, stable nations. In the final analysis, this is a fight for peoples' minds.

Fairfax, Va.

Communist Aid to Developing Nations

COMMUNIST COUNTRIES extended or pledged \$1.2 billion in new economic assistance to 16 developing countries in 1966. These new commitments sustained the high level of aid-giving of recent years and brought cumulative Communist aid offers to 35 developing countries to almost \$9 billion since the program began in 1954.

The bulk of new Communist economic aid extensions was provided by the U.S.S.R., which continues to make sizable aid commitments to a large number of regimes of widely differing political complexions in pursuit of its ambitions in the area.

In 1966 the U.S.S.R. undertook aid commitments of \$975 million (compared to \$655 million in 1965) and accounted for more than four-fifths of the total; Eastern European countries extended about \$160 million, which was down from the record aid extensions of \$490 million in 1965; Chinese Communist aid extensions totaled some \$30 million.

There is a wide gap between Communist aid pledges and actual aid disbursements, however. To date, only about one-third of total Communist economic aid extensions has actually been implemented, and the backlog of unexpended credits continues to increase—from about \$4.5 billion in 1964 to roughly \$6 billion in 1966. [From *Foreign Policy Briefs*.]

"Structural" and "Aggregative" Emphases In Anti-Poverty Policy *An Investigation of the "Backwash" and "Growth" Theses**

By RICHARD X. CHASE

Introduction

THE COUNCIL OF ECONOMIC ADVISERS observed in its 1964 Economic Report that the postwar rate of reduction in the percentage incidence of poverty for American families was less during 1956-1962 than it had been during 1947-1956.¹ The Council took the position that, while this slower decline in poverty incidence was caused in part by a slower intertemporal rate of economic growth in the 1956-1962 period, families in the poverty category were apparently becoming less able to exploit the opportunities created by general economic growth to escape from poverty. "We cannot," the Council stated, "leave the further wearing away of poverty solely to the general progress of the economy."²

The Council's position may be interpreted as calling for more emphasis on a "structural" approach in attacking the nation's poverty problem. For example, Council Chairman Walter Heller testified at Congressional Hearings on the Economic Opportunity Act of 1964 that ". . . most of the poor earners already have full-time employment, and added jobs will not help. They must be equipped with the knowledge, skills, and health to find and hold better jobs."³ The Johnson Administration's "War on Poverty," emphasizing training and education for the poor (e.g., the Job Corps, Community Action, Operation Head Start) so as to move them into the "mainstream" of American economic life, can be considered a largely "structural" approach to eliminating poverty.

Lowell Gallaway, a leading critic of the CEA's position, has labeled it the "backwash" thesis. Gallaway developed evidence indicating that

* The author would like to express his appreciation to Dr. Robert E. L. Knight and Dr. Robert L. Bennett, both of the University of Maryland, for their valuable comments on an earlier draft of this paper. Needless to say, any errors, either of commission or omission, are the author's sole responsibility.

¹ Council of Economic Advisers, *Economic Report of the President* (Washington: U.S. Government Printing Office, 1964), p. 60.

² *Ibid.*

³ U.S. Congress, House, *Economic Opportunity Act of 1964*. Hearing before the Subcommittee on the War on Poverty, Program of the Committee on Education and Labor, 88th Congress, 2nd Session, 1964, p. 30.

change in the incidence of poverty among American families is closely responsive to economic growth. Thus, he argued, ". . . greater consideration should be given to the role that economic growth can play in eliminating poverty."⁴

Hence, with respect to anti-poverty policy, two major positions have emerged—one emphasizing a "structural" approach, the other an "aggregative" approach. These positions are not mutually exclusive—their difference being a question of relative emphasis. Both hold that there is some link between the rate of economic growth and the rate at which poverty incidence is reduced. The essential point of departure between the two points of view lies with the strength of this linkage: the structural position (or to use Gallaway's nomenclature, the backwash thesis) holding that, although economic growth opens up possibilities to escape poverty, a substantial proportion of the poor are not able to exploit these opportunities and are thus left behind in a poverty backwash. On the other hand, the aggregative position taken by Gallaway (or what can be called the economic-growth thesis) holds that, while there is undoubtedly some portion of the poor population that is insulated in one degree or another from the salutary effects of economic growth, its relative importance is grossly overstated by the backwash thesis.

In short, the crucial distinction between the two theses is disagreement over the effect of economic growth in reducing poverty incidence. This, of course, has policy implications for the relative mix of anti-poverty tools. Both points of view would regard a vigorous rate of economic growth—as well as selective and specific anti-poverty programs directed toward those characteristics of the poor that act to insulate them from the opportunities afforded by growth and progress—as complementary weapons in the "War on Poverty." Those adhering to the backwash thesis, however, would place considerably greater relative emphasis on the need, scope, and application of the selective and specific weapons than would those holding the economic-growth thesis. It will be the purpose of this paper to investigate the above-outlined positions in order to cast some further light on the relative merits of each.

A More Complete Statement of the CEA Position and Gallaway's Criticism

THE STRUCTURALIST, or backwash, point of view, taken by the Council of Economic Advisers, may be inferred from testimony by Walter Heller,

⁴ Lowell E. Gallaway, "The Foundations of the 'War on Poverty,'" *American Economic Review* (March, 1965), p. 130.

then chairman of the CEA, at a hearing on the Economic Opportunity Act of 1964. This legislation is, of course, the embodiment of the Johnson Administration's "War on Poverty." The line of this testimony is as follows:

From 1947 to 1956, the proportion of American families with annual income below \$3,000 (in today's prices) dropped from 32 to 23 per cent—a rate of 1 percentage point a year. But in the period since 1956, this proportion edged down only from 23 to 20 per cent—and the actual number of persons in poverty scarcely fell.

Much of this distressing slowdown can be traced to slower economic growth, to economic slack, to unemployment which has not dropped below 5 per cent of our labor force for 76 consecutive months.

The new tax cut will sharply step up our rate of economic growth. By creating 2 to 3 million new jobs, it will open exits from poverty at a faster pace. But open exits mean little to those who cannot move—to the millions who are caught in the web of poverty through illiteracy, lack of skills, racial discrimination, broken homes, and ill health—conditions which are hardly touched by prosperity and growth.

A surprisingly large percentage of poor persons already have some kind of a job. In 1962, 70 per cent of poor families had at least one income earner, and 23 per cent had two or more. The cause of poverty here is not lack of jobs, but lack of higher skills and productivity needed to yield a decent income. As the demand for labor rises, many part-time or laid-off earners will receive higher wages. But most of the poor earners already have full-time employment, and added jobs will not help. They must be equipped with the knowledge, skills, and health to find and hold better jobs.⁵

Heller summed up this position by stating, "Clearly, we cannot rely on the general progress of the economy—or on job-creating programs alone—to erase poverty in America."⁶

Lowell Gallaway, the leading exponent of the growth-rate thesis, in his paper "The Foundations of the 'War on Poverty,'" ⁷ refers specifically to the above Heller statement. According to Gallaway:

this statement appears to say: (1) There has been a decline since 1956 in the rate at which we are eliminating poverty. (2) Part of this decline is due to the general sluggishness of the economy in this period. (3) However, a substantial part must also be attributed to the presence of a "hard core" group of people who are not basically affected by the normal processes of economic growth.⁸

These propositions are, Gallaway continues, "fairly typical of the con-

⁵ U.S. Congress, *op. cit.*, pp. 26-30.

⁶ *Ibid.*, p. 30. (Note the similarity between this statement by Heller and the quotation from the 1964 *Economic Report of the President* on page 1 of this paper.)

⁷ Gallaway, *op. cit.*, pp. 121-31.

⁸ *Ibid.*, p. 123.

tent of the backwash thesis as it has emerged in the form of the war on poverty."⁹

The remainder of Gallaway's paper contains an analysis of the relationship between poverty reduction and the general course of economic growth. The underpinnings to the analysis are a series of regressions which take the general functional form:

$$(1) \quad P = f(E),$$

where P is the percentage of families in poverty,¹⁰ and E is some measure of economic growth. As his estimator for E , Gallaway used median family income (in 1963 prices). The poverty incidence and median family income data used by him are annual figures from 1947 through 1963.

He first fitted the simple linear regression:

$$(2) \quad \Delta P = a + b \Delta M + u,$$

where M denotes median family income and u is a random error term.¹¹ The results were:

$$(2a) \quad \Delta P = .4574 - .0095 \Delta M, \quad R^2 = .93. \\ (.0026)$$

First differences were employed in the estimating equation "in order to minimize the technical problems that arise as the result of regressing two time series with strong trend factors against one another."¹² The yield in equation (2a) suggests, Gallaway writes,

a powerful relation between the poverty elimination rate (ΔP) and changes in median family income. . . . This would seem to reflect adversely on any contention that there has been some basic shift in the relationship between the extent of poverty and economic progress since 1956.¹³

Gallaway further argues that the implicit assumption of linearity in the above equation is overly restrictive. His main reason for this argument appears to be that testing the backwash thesis in a linear form "argues that families below the \$3000 boundary fall into only two groups: one

⁹ *Ibid.*

¹⁰ Defined by Gallaway as family income of less than \$3000 in 1963 prices.

¹¹ *Ibid.*, p. 127. Note: The u term will drop out of the regression if the error is truly random.

¹² *Ibid.* Note: Presumably the "technical problems" refer to the likelihood of a correlation between the trend components in the two time series which would add, spuriously so, to the computed correlation between the two variables. First differencing is, of course, a technique to mitigate the effect of these trend components by focusing the regression on year-to-year changes in the magnitude of the two variables.

¹³ *Ibid.* Note: Gallaway's conclusion of "no basic shift in the relationship between the extent of poverty and economic progress since 1956" follows from his observation that given the linear relationship a decline in the poverty-elimination ratio after 1956 would indicate an intertemporal shift in the parameter associated with the economic-progress variable.

which is completely unresponsive to changes in economic conditions and another in which all families are equally responsive to such changes."¹⁴ Consequently Gallaway is led to test the backwash proposition in a non-linear form.¹⁵ He does so by fitting his data to the regression:

$$(3) \quad P = ab^{-Mu}.$$

Converting this equation to a logarithmic form yields:

$$(3a) \quad \log P = \log a - \log b (M).$$

Fitting his data to this regression Gallaway obtains the following results:

$$(3b) \quad \log P = 1.946277 - .000116 M, R^2 = .98, \\ (.000015)$$

which he believes further demonstrates "a clear relationship between the level of median income and the percentage of families in the poverty class."¹⁶

As a result of an examination of the residuals obtained from (3b), Gallaway is led to include an unemployment variable in his analysis. Again using the logarithmic form he obtains:

$$(4) \quad \log P = 1.945100 - .000121 M + .005086 U, R^2 = .99 +$$

where U denotes the annual unemployment rate.¹⁷

These regressions have been reproduced here in some detail as they provide the core of Gallaway's argument that:

the behavior of P, the percentage incidence of poverty, can be explained by the levels of median family income and unemployment in the system.¹⁸

¹⁴ *Ibid.*, p. 125. Gallaway's reasoning here stems from the nature of a linear equation in the form:

$$P = B + (a + \alpha E).$$

where P is the percentage incidence of poverty, B the percentage of the population that is poor and unresponsive to economic growth (*i.e.*, the poverty backwash), "a" is a constant, and E some measure of economic growth. Taking the first derivative of the above yields:

$$\frac{dP}{dE} = \alpha,$$

which is the rate of change in poverty incidence, *i.e.*, the poverty-reduction rate given E. As this rate does not affect the magnitude of the backwash group (*i.e.*, the B coefficient in the equation), there is implied only two transformation rates between poverty and non-poverty—one being zero and the other nonzero.

¹⁵ A nonlinear relationship relaxes the restrictive assumption of only two poverty-transformation rates, one zero, the other nonzero, which is implicit in the linear form. The nonlinear form of the backwash thesis suggests that the poverty-reduction rate, rather than shifting at some point in time, tends rather to decrease through time with continued economic progress. This gives rise to a situation that produces a residual group in the society who become increasingly impervious to the benefits of economic progress. *Ibid.*, pp. 125-26.

¹⁶ *Ibid.*, p. 127.

¹⁷ *Ibid.*

¹⁸ *Ibid.*, p. 128.

[and] that the extent of the hard core poverty group and the significance of the backwash thesis are overstated. . . .¹⁹

To estimate the degree of this overstatement, Gallaway uses his regression (4) to predict poverty incidence among American families for 1970 and 1980. His projections are based on two sets of assumptions: (a) one set assumes the 1947-1956 growth rate in median family income of 2.93 per cent per year and a 4 per cent unemployment rate; and (b) the other set assumes the 1957-1963 annual growth rate in median family income of 2.18 per cent and a 6 per cent unemployment rate. He compares

TABLE 1
TWO ESTIMATES OF PERCENTAGE OF FAMILIES IN POVERTY
CLASS, UNITED STATES, 1970 AND 1980

Year	CEA Estimate		Gallaway's Regression Estimates	
	1947-1956	1957-1962	1947-1956	1957-1963
	Poverty	Poverty	Growth Rate	Growth Rate
	Elimination	Elimination	of Median	of Median
	Rate	Rate	Family Income	Family Income
			and 4%	and 6%
			Unemployment	Unemployment
1970	—	—	12.6%	14.2%
1980	10%	13%	6.4	8.7

SOURCE: Lowell E. Gallaway, "The Foundations of the 'War on Poverty,'" *American Economic Review* (March, 1965), Table 2, p. 129.

his results, shown here in Table 1, with a projection made by the CEA for family poverty incidence in 1980.²⁰ Gallaway points out that his estimates "predict values for the extent of poverty in 1980 that are about 35 per cent below the Council of Economic Advisers' estimates."²¹ From this he concludes:

The estimates from our regressions suggest that economic growth and

¹⁹ *Ibid.*, p. 130.

²⁰ Gallaway points out that the CEA estimates were apparently arrived at by calculating a percentage rate of decline in poverty (*i.e.*, $\Delta P/P$) for the 1947-1956 period and for the 1957-1962 period, and then using this rate to solve the following expression:

$$P = \frac{P_0}{\left(1 + \frac{\Delta P}{P}\right)^t}$$

where the subscript "o" denotes a base year and "t" the number of years elapsed to the projected date. *Ibid.*, pp. 128-29.

²¹ *Ibid.*, p. 128.

progress have a more significant role to play than the Council's estimates would indicate. . . .

In short, the case for substantial anti-poverty programs of a selective character is weakened by the findings of this paper. Rather, greater consideration should be given to the role which economic growth can play in eliminating poverty.²²

A Criticism of Gallaway's Thesis

A MAJOR PROBLEM with Gallaway's argument is its high level of aggregation. This is to say that it deals only with the responsiveness of poverty incidence to economic growth and progress for the totality of poor families. Gallaway hinges his argument on the empirical finding that the *over-all* incidence of poverty among family units and the reduction in that rate are more responsive to general economic growth than the CEA, as an alleged proponent of what Gallaway calls the backwash thesis, believes that it is. Gallaway's evidence is consistent with his argument, but for a thorough test of the backwash thesis, his analysis would appear to be incomplete. What makes it so is that it says nothing about the responsiveness of various identifiable demographic groups within the population to general economic growth and progress. For if the poverty-incidence rates of these various groups are not equally responsive to the salutary effects of economic growth, then it can be argued that those groups that are less responsive constitute backwash poverty groups *in relation to* the remaining groups in the defined poor population. Thus, with continued economic growth, poverty incidence will become increasingly more concentrated among these relative backwash groups. Concomitant with increasing concentration of poverty among certain groups, the rate of poverty reduction can also be expected to decline over time in response to any given rate of economic advance. This argument would be further buttressed if the relatively unresponsive groups were also those groups that had relatively high incidences of poverty.

To test this extension of the backwash thesis against Gallaway's argument, regression analysis similar to Gallaway's was employed. First, however, it was necessary, for comparative purposes, to select an independent (*i.e.*, economic growth) variable that could logically be applied in regression equations to the poverty-incidence rates (*i.e.*, the dependent variables) of each one of the chosen demographic groups. The independent variable so selected was deflated annual personal income per capita for the 1947-1963 period. These data are shown in Table 2.²³

²² *Ibid.*, p. 130.

²³ The data for personal income per capita were deflated to 1962 dollars. This was

The dependent variables for the regression analysis were the poverty-incidence rates for the various demographic groupings for which annual income data are reported.²⁴ Poverty status was defined (in accordance with the CEA definition in its 1964 Economic Report) as annual family income of less than \$3000 in 1962 dollars. The demographic groupings according to which the Bureau of the Census reports annual income data are: farm and nonfarm, white and nonwhite, male heads and female heads,

TABLE 2
THE INDEPENDENT VARIABLE: PERSONAL INCOME PER CAPITA, 1947-1963,
1962 DOLLARS^a

1947-1955		1956-1963	
Year	Amount	Year	Amount
1947	\$1799	1956	\$2195
1948	1803	1957	2195
1949	1763	1958	2163
1950	1880	1959	2238
1951	1921	1960	2269
1952	1970	1961	2293
1953	2035	1962	2371
1954	2004	1963	2425
1955	2117		

^a The deflator employed was the CPI shifted to a 1962 base.

SOURCE: Data derived from Council of Economic Advisers, *Economic Report of the President* (Washington: U.S. Government Printing Office, 1966), Tables C-12 and C-43.

and age categories.²⁵ The poverty-incidence rates for these groups, as well as for all American families, which were derived from the reported Census income distributions are shown in Table 3. This table also combines the data for the various demographic groupings under the two broader headings of "majority" groups (those that comprise the larger

done in order to keep the economic-growth (independent) variable consistent with the data derived for the poverty-incidence rates (the dependent variables) for the various demographic groups contained in the following regression analysis. (The data for group poverty-incidence rates are discussed below and are shown in Table 3.) The difference between the 1963 base employed by Gallaway and a 1962 base would not be expected significantly to affect a comparison of regression results, as the change in the CPI between 1962 and 1963 was small—an increase of only 1.2 per cent.

²⁴ See U.S. Bureau of the Census, *Current Population Reports*, Consumer Income, Series P-60.

²⁵ The Current Population Survey reports annual income data for six age groups: 14-24, 25-34, 35-44, 45-54, 55-64, and 65 and over. For ease of exposition these subgroups have been aggregated into two: the nonaged (14-64) and the aged (65 and over).

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TABLE 3
THE DEPENDENT VARIABLES: POVERTY INCIDENCE^a
AMONG AMERICAN FAMILIES, BY DEMOGRAPHIC GROUPS, 1947-1963

Year	All families	Poverty Incidence (percentage poor)							
		Majority Family Groups				Minority Family Groups			
		Non-farm	under 65	White	Male	Farm	65 & over	Non-white	Female
1947	32.2	26.9	28.8	28.8	29.9	55.5	57.2	66.8	51.5
1948	33.1	27.6	29.7	30.0	30.6	57.5	58.6	66.6	54.4
1949	34.4	28.7	30.8	31.3	32.4	67.1	60.7	68.8	55.7
1950	31.6	27.2	28.0	28.8	28.6	58.5	58.4	63.5	59.6
1951	29.3	24.1	25.4	26.2	26.6	59.7	59.2	62.4	55.2
1952	28.0	22.8	23.9	24.3	25.0	57.3	55.7	57.6	56.4
1953-54 ^b	27.3	22.6	23.0	24.7	24.3	60.8	55.6	54.3	55.6
1955	24.7	18.4	20.4	22.0	21.8	59.4	55.2	51.7	52.7
1956	22.5	19.0	18.2	19.7	19.8	55.3	52.0	51.1	49.2
1957	22.7	18.8	18.1	19.8	19.8	54.1	54.6	50.4	50.3
1958	22.8	19.1	18.3	20.0	19.8	52.1	53.3	52.1	51.6
1959	21.7	18.4	17.1	18.9	18.4	51.2	51.0	49.8	51.9
1960	21.1	17.9	16.8	18.6	18.1	50.9	50.6	45.6	49.5
1961	21.1	18.9	16.4	18.3	17.9	46.2	49.1	47.0	49.6
1962	19.9	18.0	15.2	17.0	16.6	42.9	47.1	44.5	48.0
1963	18.8	17.4	14.5	16.2	15.6	44.0	45.6	43.6	47.6

^a Poverty incidence defined as the percentage of families in a given demographic group having an annual income of less than \$3,000 in 1962 dollars.

^b Source reported income data for 1953 and 1954 as an average for the two years.

SOURCE: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Consumer Income, Series P-60, Nos. 13, 15, 17, 19, 21, 23, 25, 27, 29, 31, 33, 35, 37, 39, 41, and 43, 1947 through 1963.

population total within a given population category) and "minority" groups (those that comprise the smaller part of a given population category).

To begin with, regressions in the same form as Gallaway's (2), (3), and (4) were computed in order to estimate the responsiveness of poverty incidence among all families to personal income per capita (our estimator of economic growth). This was done in order to compare the results of using our estimator for growth with the results obtained from Gallaway's estimator (median family income in 1963 dollars). The data, of course, covered the 1947-1963 period. The simple linear regression:

$$(5) \quad \Delta P = a + b\Delta Y + u,$$

where P is the poverty-incidence rate for all families, Y deflated personal income per capita, and u a random error term, yielded the following results:

$$(5a) \quad \Delta P = .2595 - .02804\Delta Y, R^2 = .82 \\ (.0035)$$

The relationship in equation (5a) between the rate of poverty elimination (ΔP) and changes in per capita personal income (ΔY) is not as strong as the relationship in Gallaway's linear equation (2a) between ΔP and changes in median family income (ΔM), wherein the $R^2 = .93$. (Our results differing from Gallaway's, could be interpreted as being consistent with the hypothesis that there may have been some shift in the relationship between the extent of poverty and economic progress since 1956.)

Following Gallaway's lead, a nonlinear equation in the same form as his (3):

$$(6) \quad P = ab^{-Y}u,$$

yielded a fit similar to that obtained by Gallaway:

$$(6a) \quad \log P = 2.2412 - .0004200 Y, R^2 = .99. \\ (.00001)$$

However, adding an unemployment variable to (6) did not improve the fit obtained in (6a) as it did when Gallaway added such a variable to his equation (3).²⁶

Equation (6a) was then used to predict poverty-incidence rates for 1970 and 1980,²⁷ assuming two different growth rates in personal income per capita (*i.e.*, the 1947–1956 rate of growth and the 1957–1963 rate²⁸). These projections, shown in Table 4, are also close to those made by Gallaway (see Table 1) and tend, if anything, to confirm Gallaway's conclusions. Thus, the above suggests that replacing Gallaway's independent variable (median family income) with ours (personal income per capita) does not work systematically to bias the following more detailed analysis against his more aggregative analysis merely because of the selection of a different statistical series for the independent variable.

However, the key point here is *not* that Gallaway's argument is necessarily incorrect as far as it goes, but rather that it does not go far enough in testing or examining the backwash proposition. Therefore, in order to carry the analysis further, the responsiveness of poverty-incidence rates of

²⁶ Also the regression coefficient for the unemployment variable (U) was not significant. The results of adding an unemployment variable to equation (6) were:

$$\log P = 2.2432 - .0004079Y + .002179U, R^2 = .99 \\ (.00001125) (.001917)$$

²⁷ It will be recalled that Gallaway used as his predicting equation the results obtained from adding an unemployment variable to his equation (3), *i.e.*, his equation (4).

²⁸ The calculated growth rate in deflated per capita personal income for the 1947–1956 period was about 2.25 per cent per year, and 1.5 per cent per year for the period 1957–1963 (inclusive of the change in per capita personal income between 1956 and 1957). (Calculated from data shown in Table 2.)

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TABLE 4
REGRESSION ESTIMATES OF PERCENTAGE OF FAMILIES IN
POVERTY CLASS, 1970 and 1980

Year	1947-1956 Growth Rate of Personal Income Per Capita	1957-1963 Growth Rate of Personal Income Per Capita
1970	12.6%	14.4%
1980	6.6	9.2

SOURCE: Data computed from equation (6a).

the various demographic family groups above mentioned (see Table 3 for data) was tested against the varying levels of personal income per capita for the 1947-1963 period (see Table 2 for data). As Table 3 shows, those family groups designated as "minority" groups had in all years substantially higher levels of poverty incidence than did the "majority" groups. For ease of reference, Table 5 shows the poverty-incidence levels for each of the four "majority" family categories for the first and last years of the time series (1947 and 1963) compared directly with the rates of poverty incidence for the four corresponding "minority" categories.

The higher levels of poverty incidence among "minority" families indicates, of course, that family poverty is relatively more concentrated among these groups and is what one would expect to be likely. The crucial question in examining the backwash thesis is, however, the comparative responsiveness of the poverty-incidence rates of these various demographic groups to economic growth. If poverty incidence among the "minority"

TABLE 5
PERCENTAGE INCIDENCE OF POVERTY^a AMONG "MAJORITY"
AND "MINORITY" FAMILY GROUPS, 1947 AND 1963

Majority Groups	Poverty Incidence		Corre- sponding Minority Groups	Poverty Incidence	
	1947	1963		1947	1963
Nonfarm	26.9%	17.4%	Farm	55.5%	44.0%
Under 65	28.8	14.5	65 and over	57.2	45.6
White	28.8	16.2	Nonwhite	66.8	43.6
Male	29.9	15.6	Female	51.5	47.6

^a Defined as less than \$3000 in 1962 dollars.

SOURCE: Data derived from U.S. Bureau of the Census, *Current Population Reports, Consumer Income*, Series P-60, Nos. 13 and 43.

populations systematically shows a significantly lesser response to economic growth and progress than it does among the "majority" groups, then we have strong reason for feeling that families with "minority" characteristics constitute a poverty backwash relative to the bulk of American families, and that poverty will most likely in the future continue to become even more concentrated among these families. Furthermore, an increasing concentration of poverty among families with "minority" characteristics implies a weakening over time in the linkage between poverty reduction and economic growth, with a consequent depressing effect on the rate of poverty reduction for the society as a whole, given any rate of economic growth.

Accordingly, to test the responsiveness of the poverty-incidence rates of the various family groupings to economic growth, the curvilinear regression,^{28a} was estimated for each of the eight "majority" and "minority" population groups. The variables retain the same definitions as before except, of course, in each of the eight regressions the P variable is the poverty incidence for the particular group. As before, the data covered the period 1947 to 1963 (shown in Tables 3 and 4). The results of these regressions are shown in Table 6, along with (in the last column) projected poverty-incidence rates for each group for 1970, assuming the 1947-1956 rate of growth in deflated per capita personal income.²⁹

As can be seen from examining the adjusted R^2 in Table 6, the relationship between levels of poverty incidence and personal income per capita is, with the exception of nonwhites, significantly less powerful for each "minority" group than for its corresponding "minority" population. Furthermore, the slope of the "minority" regressions is in all cases less steep than for the corresponding "minority" equations—the latter indicating that to the extent poverty incidence among the "minority" groups does respond to economic growth and progress, it does so to a lesser degree than for the "majority" groups. This in turn indicates that, with continued economic growth, poverty incidence will very probably tend to become increasingly more concentrated among groups with "minority" characteristics.

Using the equations to project poverty incidence forward to 1970 (assuming a growth rate in personal income per capita equal to the 1947-1956 rate) indicates, *ceteris paribus*, the high levels of "minority" group

^{28a} That is, equation (6) $P = ab^{-x}u$.

²⁹ Only one projection was made for each group, as assuming the slower growth rate of 1957 to 1963, and projecting the data further to the future would appear to add nothing additional to the argument.

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TABLE 6
LOGARITHMIC REGRESSIONS^a RELATING GROUP POVERTY INCIDENCE
(DEPENDENT VARIABLE) TO DEFLATED^b PERSONAL INCOME PER
CAPITA (INDEPENDENT VARIABLE), 1947-1963, AND
PROJECTIONS OF POVERTY INCIDENCE TO 1970^c
(families)

Family Group	Intercept log a	Slope		Adjusted R ² *	Projected Poverty In- cidence in 1970 Assum- ing 1947- 1956 Growth Rate in Y
		log b	(Standard Error)		
Nonfarm	2.0569	-.0003502	(.000029)	.90	11.2%
Farm	2.1733	-.0002102	(.000035)	.69	36.9
Under 65	2.4056	-.0005190	(.000014)	.99	8.1
65 and over	2.0703	-.0001624	(.000014)	.79	39.8
White	2.2430	-.0004286	(.000015)	.98	10.2
Nonwhite	2.3701	-.0003055	(.000015)	.96	30.8
Male	2.3447	-.0004778	(.000012)	.99	9.3
Female	1.9465	-.0001084	(.000021)	.61	43.1

^a The form of the regressions was:

$$P = ab^{-Y}u,$$

where P is the annual poverty-incidence rate for each population group, and Y is annual per capita personal income for the U. S. population.

^b Deflated to 1962 dollars.

^c Assuming growth rate in Y equal to that rate that prevailed from 1947 to 1956, i.e., 2.25 per cent per year.

* All coefficients significant at the .01 level.

SOURCE: Calculations. (For data see Tables 2 and 3.)

poverty incidence that might be expected to prevail even under the assumption of a relatively rapid rate of growth in per capita personal income. The increase in the relative concentration of poverty among the populations with "minority" characteristics is indicated by the increase in the ratios of "majority"-group poverty-incidence rates to the rates for the corresponding "minority" group from 1963 to 1970. These ratios are shown in Table 7.

The implications of the preceding analysis are, of course, that the "minority" population groups are, relative to the "majority" groups, "backwash" poverty populations. Their poverty-incidence rates are less responsive to economic growth and progress than are the poverty-incidence

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TABLE 7

RATIOS OF "MAJORITY"-GROUP POVERTY-INCIDENCE RATES TO
"MINORITY"-GROUP RATES, FOR 1963 AND PROJECTED TO 1970

Group	1963 Ratio	(Projected) 1970 Ratio	Percentage Change
Nonfarm to farm	2.5	3.3	+ 32%
Under 65 to 65 and over	3.1	4.9	+ 58
White to nonwhite	2.7	3.1	+ 14
Male to female	3.1	4.6	+ 48

SOURCE: Data from Tables 5 and 6.

rate for the "majority" groups, and thus at a given rate of economic growth these "minority" groups can be expected to account for an increasingly larger proportion of aggregate poverty—regardless of the absolute level of poverty incidence. Furthermore, as these minority groups are backwash poverty groups in that their rates of poverty reduction are relatively unresponsive to economic growth, it follows that their increasing weight in the total poverty population will tend to lead to an over-all weakening in the response of the rate of poverty reduction to any given level of economic growth.

Some Further Evidence

W. H. Locke-Anderson has investigated the degree to which the median family incomes (as opposed to the percentage incidence of poverty) of the various population groups that we have already designated as "minority" and "majority" populations are affected by the growth in incomes in the economy as a whole.³⁰ To do this, Anderson fitted regressions which related the annual percentage changes in each family group's deflated median income (the dependent variable) to the annual percentage change in deflated personal income per capita of the U.S. noninstitutional population fourteen years and over (the independent variable).³¹ The results of fitting these regressions are reproduced here in Table 8.

As can be seen from this table, the "minority" population groups (*i.e.*, farm, 65 and over, nonwhite and female head) all had, in 1947, median incomes below a poverty boundary of \$3000 (in 1959 dollars).³² With

³⁰ W. H. Locke-Anderson, "Trickling Down: The Relationship Between Economic Growth and the Extent of Poverty Among American Families," *Quarterly Journal of Economics* (November, 1964), pp. 511-24.

³¹ *Ibid.*, p. 522. Note: Anderson deflated his data to 1959 dollars.

³² Anderson's poverty boundary of \$3000 in 1959 dollars is somewhat higher than the boundary defined in terms of 1962 dollars. For example, \$2690 in 1962 prices would be equal to \$3000 in terms of 1959 prices.

TABLE 8

REGRESSIONS^a RELATING DEFLATED^b GROUP MEDIAN INCOMES
(DEPENDENT VARIABLE) TO DEFLATED^b PERSONAL INCOME PER
CAPITA^c (INDEPENDENT VARIABLE). ANNUAL PERCENTAGE
CHANGES, 1947-1960
(families)

Family Subgroup	Data for Median Family Income for Terminal Years, 1947 and 1969 (1959\$), and Percentage Change in Median Income, 1947 to 1960			Regression Data		
	1947	1960	Percentage Change	Intercept ("a" coefficient)	Slope ("b" coefficient)	Adjusted R ²
All families	\$3,957	\$5,547	40.4%	0	1.078	.62*
Nonfarm	4,204	5,724	36.2	0	.982	.68*
Farm	5,585	2,838	9.8	-5.0	2.489	.42*
Under 65	4,110	5,784	40.7	0	1.097	.69*
65 and over	2,398	2,862	19.3	1.5	**	**
White	4,127	5,761	39.6	6	1.084	.67*
Nonwhite	2,110	3,190	51.2	-0.5	1.551	.52*
Male head	4,056	5,779	42.5	0	1.118	.79*
Female head	2,840	2,928	2.8	0.5	**	**

^a The implicit form of the regression is:

$$\frac{\Delta M}{M} = a + b \frac{\Delta Y}{Y},$$

where M is the annual median income for each population group, and Y is annual per capita personal income for the noninstitutional population 14 years of age and over.

^b Deflated to 1959 dollars

^c Noninstitutional population, 14 years and over.

* Coefficient significant at the .01 level.

** Adjusted R² negative or virtually zero.

SOURCE: Table adapted from W. H. Locke-Anderson, "Trickling Down: The Relationship Between Economic Growth and the Extent of Poverty Among American Families," *Quarterly Journal of Economics* (November, 1964), Table IV, p. 522.

the exception of the nonwhite group, these "minority" populations had, in 1960, median incomes that were still below this poverty cutoff point.³³ Also, their relative income gains for the 1947-1960 period were substantially below those for the "majority" population groups (*i.e.*, nonfarm, under 65, white, and male head). The nonwhite group, although showing the largest percentage growth in median income, had, in 1960, a median income only slightly above the poverty boundary.

³³ If median income is below the poverty boundary, then the poverty incidence rate, of course, is in excess of 50 per cent.

The data show that median incomes of two of the four "minority" groups—families with a female head and families with a head over 65—have been insensitive to movements in per capita personal income and have grown only very slowly. These families are to a great degree isolated from economic growth, and for them, Locke-Anderson concludes, general income growth "simply does not 'trickle down' directly enough to be counted on to reduce poverty."³⁴

The median income of farm families shows a high elasticity with respect to changes in aggregate per capita income, but the negative intercept implies that aggregate per capita income for the U.S. must grow at about 2 per cent a year for median farm family income to remain constant.³⁵ Thus these families, Locke-Anderson concludes, "are fighting an uphill battle if they remain on the farm."³⁶

The only "minority" group contained in this analysis that appears to benefit significantly from economic growth is the nonwhite category. However, the negative intercept shown in Table 8 again implies that a portion of the growth in per capita personal incomes is dissipated in merely keeping nonwhite median incomes constant.³⁷

In short, the data indicate that growth in median incomes for "minority" group families is relatively less sensitive to general economic growth (measured by per capita personal income) than is growth in the median incomes of "majority" group families. As poverty is measured in terms of a given amount of income, the implication is that, with any given rate of economic growth, poverty incidence will be reduced more slowly among "minority" than among "majority" families. Thus, it again follows that "minority" groups within the population constitute a relative poverty backwash, and that with continued economic growth and progress, poverty may be expected to become increasingly more concentrated among these groups.

³⁴ *Ibid.*, p. 524.

³⁵ What is referred to here is the relation between the slope which is approximately 2.5 and the intercept of -5.0 (see Table 8). As the regressions are in percentage changes, a 1 per cent change in per capita income (the independent variable) will result in a 2.5 per cent change in farm median income (the dependent variable). Thus the intercept of -5.0 requires a 2 per cent increase in per capita income to prevent a decline in farm median income.

³⁶ *Ibid.*, p. 523.

³⁷ As the regressions are in percentage terms, the negative intercept (-0.5) indicates that a .5 per cent growth in aggregate per capita personal income (the independent variable) is necessary merely to maintain the existing level of nonwhite median income. The relationship between the slope (1.551) and the intercept (-0.5) in the nonwhite regression implies that, in any given year, an approximate 1.6 per cent increase in per capita personal income will be associated with only about a 1 per cent increase in nonwhite median income.

Conclusions and Policy Implications

THE ANALYSIS IN THIS PAPER tends to support what has been termed the backwash proposition. This is not to deny that economic growth and progress are potent and necessary anti-poverty weapons. They open up avenues and opportunities for the poor to escape from their poverty. But there are groups within the poverty population whose ability to exploit the opportunities provided by general economic advance is relatively weak. These groups constitute a poverty backwash which has the tendency, over time, to become an increasingly larger proportion of the total poverty population. As poverty comes to be more concentrated among such backwash groups, the linkage between change in the level of over-all poverty incidence and the rate of economic growth and progress can be expected to become weaker.

In short, this paper argues not only for the soundness of the policy emphasis on selective and specific anti-poverty programs in the "war on poverty," but also that this relative emphasis must increase through time if our society is to achieve and maintain a given acceptable rate of poverty reduction (in the percentage incidence of poverty). Aggregate policies aimed at bringing about and maintaining full employment are necessary prerequisites to be sure, and also have a social and economic priority of their own. But in combating poverty in America, it would appear that additional measures and programs, pinpointed to those structural characteristics of our society that permit and foster a substantial pool of the underprivileged in the midst of affluence, are even more necessary.

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Financing Economic Development

TURNING TO THE WORLD'S general economic picture, I note with regret that with the so-called development decade more than half over, the gap between aspirations and achievements remains wide, indeed wider in many instances. The Annual Report of the World Bank and International Development Association for 1966 shows that while the industrial countries have achieved unprecedented prosperity, laggard progress in agriculture, increases in population, inequities and imbalances in world trade and finance—these and other factors of immense complexity have offset much of the gain in the developing countries.

In the last 15 years, the real gross national product in the developing countries of Asia, Latin America, and Africa as a group has increased at an average annual rate of $4\frac{1}{2}$ per cent. In some of these countries the

growth rate has hardly kept up with population increase. In others a population growth of between 2 and 3 per cent a year has wiped out much of the production gain.

To offset this unfortunate situation, everyone agrees that the magnitude of development finance must be increased, and its terms must be made easier. Yet the reverse is happening. While the capacity of the developing nations to receive aid is gradually but surely increasing, and the developed countries' ability to offer aid is also firmly on the rise, the latter's willingness to help the emerging countries seems to be dwindling, and withdrawals from long-range commitments to the cause of international cooperation and assistance are again haunting some advanced countries.

Nor is this all. More than half the inflow of development finance is now being offset by debt servicing on the part of the developing nations. A former World Bank official has in fact shown in a recent essay that low-income countries are now paying more in interest and principal on World Bank loans than the Bank is disbursing on those loans. In his opinion, Bank loans in the year 1964 were responsible for a flow of resources from the poor to the richer nations. Indeed one must be concerned that the goal of 20 years ago is still so distant.

The Bank's Report for 1966 places these multiple problems of development in the right perspective. The fundamental problem is one of priorities. Many countries, both rich and poor, have permitted themselves to be diverted from the cause of economic development by current exigencies of various kinds. Nations, like men, find it difficult to keep their eyes on distant goals when present threats and vicissitudes confront them. I do not wish for a moment to underestimate the magnitude of difficulties which confront either the developing or the industrial countries and which have sometimes deflected their attention from the imperatives of economic development. The leaders in developing countries in particular must grapple with acute shortages of domestic financial resources and human skills, and with not only a scarcity of foreign exchange but also uncertainty concerning the levels of both export earnings and external assistance. The shortage of foreign exchange in most developing countries is a major bottleneck for implementation of national development programs. Although this whole problem is related to the question of trade and development, it is also an important aspect of the structural changes that are necessary in developing countries to bring about conditions for self-sustained growth. [From an address.]

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JAMSHID AMOUZEGAR

Magnitude of Nonreproducible Capital in the American Economy

By WALTER F. SWANTON

DO ESTIMATES OF NATIONAL WEALTH, such as those by Goldsmith in the *Economic Almanac*, accurately portray the magnitude of wealth in the United States, or are they misleading because of gross underestimation? A study I have made indicates that Goldsmith's figures fail to give a realistic picture of actual market values of property, especially with respect to its nonreproducible forms. A false impression of its economic significance may thus exist among economists.

In his October, 1964, address to the New York Society of Security Analysts, Leonard Spacek said that natural resource companies treat assets such as oil reserves as though they were of no economic consequence until used or sold, and that as a consequence, many such companies possess capital accretions far in excess of values reported.¹

Subsoil assets were not included by Goldsmith as a separate item prior to 1945. In 1958 they were appraised at \$19.9 billion. Yet proven reserves of crude petroleum that year were 31 billion barrels.² Its price at the wells averaged \$2.93 per barrel.³ If the added value in bringing the oil to surface storage is conservatively estimated at \$0.93 per barrel, the value of subsoil petroleum alone in 1958 was about \$62 billion, or three times the amount assigned by Goldsmith for all subsoil assets.

Other apparent defects in standard estimates of national wealth will be presented, but first the nature of wealth must be clarified.

I

WEALTH, AS USED in this paper, means market value of property, both privately owned and publicly owned. Property is customarily differentiated into tangible and intangible forms. This distinction is valid in absolute macroeconomics, the study of tangible inputs and outputs, but in practical macroeconomics, the study of employment and distribution of output within a framework of institutions and other market ground rules, all property is defined in terms of intangible rights. The object of the rights, *e.g.*, land, may be tangible, but the rights of ownership to it,

¹ Leonard Spacek, *The New York Times*, October 4, 1964, Sec. 3, p. 1.

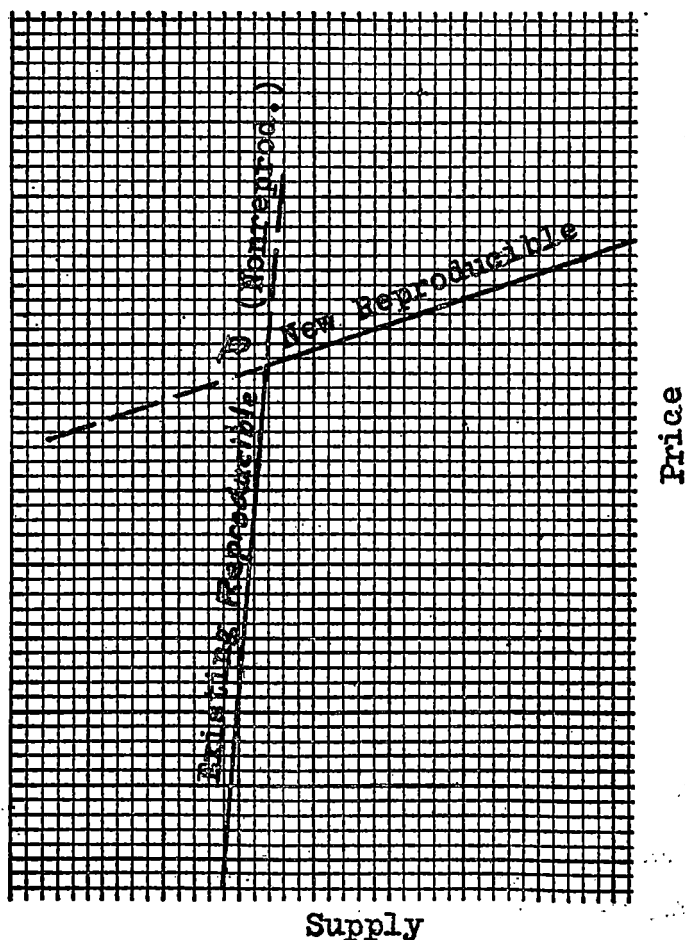
² *Statistical Abstract of the U.S.*, 1964, U.S.G.P.O., p. 719.

³ *Ibid.*, p. 704.

which are the equities actually bought and sold, are intangible. A change in the nature of the rights, *e.g.*, in a zoning classification, can materially affect the value of the property without altering the tangible object of the rights in the slightest.

Property is also differentiated on the basis of use into capital and consumer durables. Capital is property used in the production of goods and services, *i.e.*, it is a "factor" of production, whereas consumer durables are types of property enjoyed directly by their owners. This distinction is

FIGURE I



important in macroeconomic analysis, but relatively unimportant in the estimation of national wealth.

A more significant basis for differentiation between forms of property is reproducibility. Some forms of property are reproducible in relatively unlimited quantity, *e.g.*, machines and structures, whereas others are not, *e.g.*, land sites, licenses, and franchises.

The significance of reproducibility lies in the supply function as shown in Figure 1. In this highly simplified figure, economic supply is plotted against price. Up to a point, *P*, the curves are the same for both reproducible and nonreproducible factors, *i.e.*, supply for both is inelastic. Above *P*, however, the functional relationships are very different. Supply of reproducibles suddenly becomes elastic. The new functional relationship describes supply of newly formed capital as a function of price.

In absolute macroeconomics, nonreproducible capital is synonymous with the classical factor, land. Such assets are, in the words of Paul Samuelson, "provided by Mother Nature,"⁴ but in practical macroeconomics, rights to land are not obtained from "Mother Nature," but from landowners, and at a price, a price determined by an inelastic supply function. Furthermore, in practical macroeconomics there are a host of other nonreproducible forms of property which cannot be ignored. They are equal in importance with the so-called tangible factors in determining distribution of output and hence of aggregate demand for goods and services in a free economy.

Some of these intangible nonreproducible factors, such as public utility franchises, are obtained from the State. Others, like "seats" on the New York Stock Exchange, major league baseball franchises, and memberships in restricted labor unions, are obtained from quasi-public agencies. Still others, like dealerships to sell nationally advertised products, are obtained from the giant corporations which create both the product and its demand.

Of the many types of nonreproducible factors only land is tangible. Yet no one really owns the physical land completely. The owners own only rights to exclusive use of it. In this sense, which is the practical one, rights to land are intangible and not truly different from other intangible, nonreproducible factors.

In a competitive private-property economy such as that of the United States, market price is the best measure of economic importance. Therefore, the importance of nonreproducible capital in the American economy must be judged by the value of ownership rights to it.

The value of ownership rights to nonreproducible capital assets not

⁴ Paul A. Samuelson, *Economics* (4th ed.; New York: McGraw-Hill, 1958), p. 575.

employed commercially, such as lots for single family homes, is determined directly by supply and demand. But for nonreproducible capital employed commercially, such as sites for multiple family dwellings, office buildings and stores, franchises, licenses and charters, market value is determined from estimated income which they can command for their owner.

Thus,

$$(1) \quad C = I/i$$

in which,

C = capitalized value, \$

I = estimated annual income, \$/yr.

i = market interest rate, \$/yr.-\$

Intangible forms of property are of two types, as John R. Commons and others have pointed out, those which merely represent a second party's interest in the nominal owner's property, and those which represent an exclusive right to exploit a resource or to engage in a specific form of activity at, perhaps, a specific site or in a specific territory. The first type need not be considered, except as the forms reveal true market value of "hidden" assets, since this would be only a duplication. But the second type should not be omitted. Such intangible, nonreproducible capital assets are not included in estimates of wealth, such as Table 1, yet their aggregate value and importance in the economy are enormous, as shown by the following examples.

In 1964 there were 11,800 taxicabs operating in New York City, and the public hack permits or medallions which each cab must have were worth \$25,000 each to owner-drivers and \$33,000 each to fleet owners.⁵ Thus, at an average of \$29,000, the market value of all 11,800 was about \$340 million. At a capitalization rate of 6 per cent this aggregate of capital implies, by equation (1), an income of about \$20 million per year to the owners of such permits *over and above* their income to pay wages, operating costs, overhead and ordinary profits.

The value of these public hack licenses is minuscule compared to the value of public utility franchises and bank charters. New bank charters, or permission to start a banking business, can be obtained only if the Comptroller of the Currency is satisfied that the new bank will not "weaken substantially any already existing bank."⁶ The value of a bank charter stems not only from the protected status of banks but also from the fact that banks can create money (a right reserved in theory to the federal

⁵ *The New York Times*, Nov. 8, 1964, p. 2E.

⁶ "A Primer on Money," Subcommittee on Domestic Finance, U.S. House of Representatives, U.S.G.P.O., 1964, p. 84.

government) at little cost which, when loaned to borrowers, provides them with a very substantial income from interest payments.

These permits and charters may not be tangible. But what is the basic difference between the right to operate a public hack or a national bank and the right conferred by a zoning board, an agricultural allotment board, or a milk producers board to establish an enterprise on a site, to grow wheat, or to sell milk? The land sites and farms are tangible. But the rights to use them, which are the basis of their value, are intangible.

Values represented by nonreproducible rights are seldom listed in financial statements and, when listed, are seldom listed at their market value. This value is generally carefully concealed as "good will" or "going concern," or simply allowed to remain "hidden" until needed.

A rush by several large companies to obtain control of the Celotex Corporation in 1962, even though it lost \$1,232,000 in the first half of the year from its manufacturing operations, is explained by "hidden" assets in the form of large land holdings of the South Coast Corporation on the Houma Canal.⁷ This canal, built by Terrebonne Parish (La.) for \$3,500,000, provides a short route from the Intracoastal Waterway to the Gulf of Mexico. Celotex owned 53 per cent of the South Coast Corporation. Land along the canal was estimated to be worth \$2,500 to \$15,000 an acre. Another "hidden" asset was the South Shore Oil & Development Corporation which owned the oil rights on South Coast lands.

A "seat" on the New York Stock Exchange sold in 1963 for \$210,000.⁸ The value of all 1,366 seats was, therefore, \$290 million at that time. Does anyone believe that this price, paid by highly sophisticated businessmen, is based on fictitious or false value?

Other news items report that \$100,000 was paid as a bribe to obtain a single liquor license for a club in New York City, and an equal sum was paid for the parking and refreshment concessions at an upstate racetrack.⁹

These examples of nonreproducible, intangible capital assets can be multiplied many times over in all our states and cities. Their aggregate value is enormous, yet they are largely ignored in estimates of either national wealth or national income.

II

HOWEVER THE PRIMARY CONCERN of this article is not with intangibles,

⁷ *The New York Times*, July 15, 1962, p. F1.

⁸ Rochester (N.Y.) *Democrat and Chronicle*, Sept. 29, 1963, p. 5C.

⁹ *Ibid.*, March 27, 1965, p. 1B.

important as they are, but with plain, old-fashioned land, the thing that Adam Smith and Henry George talked about.

What are probably the most authoritative data available on the value of tangible wealth in the United States are summarized in Table 1. These data seem to indicate that, although rising in absolute value, land has declined in relative importance in our economy from 1900 to 1958. Without quarreling with this conclusion, it does appear that, as pointed out above, for subsoil assets, the aggregate value of land values of all types shown in Table 1 may not be realistic.

In estimating the market value of land the best criteria are actual selling prices arrived at between "willing" buyers and sellers who are "at arms length." Such selling prices, when properly analyzed, provide assessors with price indexes for use in making objective appraisals of other properties.

TABLE 1
TANGIBLE NATIONAL WEALTH
(billions, 1947-49 constant dollars)
(less monetary metals and foreign assets)

	1900	1929	1933	b	1945	a	1956	1958
(1) structures								
(2) equipment (durables)								
(3) inventories								
(4) total reproducible capital								
(5) residential land								
(6) farm land								
(7) nonresidential land								
(8) forest lands								
(9) subsoil assets								
(10) total land								
(11) total capital								
(12) total real estate								
(1)	145 46%	383 51%	383 53%	366 50%	408 53%	553 49%	593 49%	
(2)	42 13	118 16	103 14	129 17	119 15	279 24	297 25	
(3)	33 10	63 8	53 7	74 10	74 10	109 10	110 9	
(4)	220 69	564 75	539 75	569 77	601 78	941 83	1000 83	
(5)	19 6%	50 7%	48 7%	43 6%	31 4%	42 3.7%	45 3.7%	
(6)	42 13	52 7	52 7	54 7	54 7	51 4.5	53 4.5	
(7)	39 12	86 11	80 11	74 10	67 8.9	81 7	85 7	
(8)					6 .8	7 .6	7 .6	
(9)					10 1.3	14 1.2	*14 1.2	
(10)	100 31%	188 25%	180 25%	171 23%	168 22%	195 17%	204 17%	
(11)	320	752	719	740	769	1136	1204	
(1)	145 59%	383 67%	383 68%	366 68%	408 71%	553 74%	593 74%	
(10)	100 41	188 33	180 32	171 32	168 29	195 26	204 26	
(12)	245	571	563	537	576	748	797	

* 19.9 billion in current dollars

SOURCE: R. W. Goldsmith, *The Economic Almanac 1964*, National Industrial Conference Board, New York, pp. 144-5.

Valuable land usually has structures or improvements on it and ownership of these structures in our economy is usually inseparable from ownership of the land. The problem of land appraisal is, therefore, not only one of estimating how much buyers will pay for a property, but also what fraction of the total price should be credited to the bare land or to the structures and improvements on it. The problem is often further complicated by the fact that intangible rights of use and title may also be involved.

Perhaps the best way to explain the principles of land appraisal is by listing the more important rules or guidelines employed by appraisers.¹⁰

1. The total value of a real estate parcel is the algebraic sum of two independently valued components, *viz.*, the reproducible or structures component and the nonreproducible or land and "rights" component.
2. The value of the land rights component is determined by the most profitable use which the rights of ownership permit, not by its current use.
3. The value of the structures component is the value which they add to the bare land value and lies between a maximum, which is the cost of duplicating their productivity, and a minimum, which is negative and equal to the cost of demolishing the "improvements." Due allowance must be made in both cases for the time required to duplicate or demolish.
4. Value of structures tends to depreciate with time because of physical deterioration and technical obsolescence; value of land tends to rise with growth in population and to fall with advancing technology.
5. Since structures on a land site are generally under the direct control of the property owner, they have much less influence on the value of the property than do structures and land use of adjoining properties over which he has no control.¹¹
6. Taxes on reproducible structures are largely indirect, *i.e.*, they are a cost which enters into the selling price of the output from the property; taxes on land, as with other nonreproducible factors, are

¹⁰ M. S. Lurio, *Appraisal and Valuation Manual 1961*, Washington 6, D.C., American Society of Appraisers.

¹¹ Even with rural properties of 40 acres and larger, J. A. Munger found that "off-site" factors appear to be more important than on-site determinants of price. J. A. Munger, "Components of Rural Land Values in Northern Wisconsin," *Land Economics*, Vol. XL, No. 1, pp. 87-91.

direct. *i.e.*, they must be absorbed by the owner from his net rental income and hence lower the capitalized value of the land.¹²

It is true that by Zeckendorf's "Hawaiian Technique"¹³ the total value of a property can be subdivided into many parts: (1) title to the building, (2) operating leases on the building, (3) various mortgages, (4) land, (5) stocks and bonds, etc., but such subdivisions are not truly independent. They introduce no new independent elements of value, but are merely more detailed subdivisions of the land and structures components.

The basic difference between the land value and the structures value portions of real estate is not generally appreciated, even by many assessors. Whenever structures on a site are demolished, it is reasonable to conclude that such structures are essentially worthless for that site and may even detract from the value of the bare site. Yet assessors almost never assess structures at zero or negative values. The typical situation is illustrated by an example from a study of urban blight in Dayton, Ohio.¹⁴ In this study a passing note is made of seven properties acquired solely for their land, since the buildings were promptly razed, at an indicated price of \$192,000. These properties had combined assessed values as follows:

buildings	\$54,490	52.5%
land	49,270	47.5%
total	<u>\$103,760</u>	

In the usual analysis, the land portions of these properties would be assumed to represent only 47.5 per cent of the total value of the properties. In fact, however, the land components were worth \$192,000, if salvage value equaled the cost of structure demolition or 100 per cent of the actual market value or 185 per cent of the total assessed value of \$103,760, or 390 per cent of the assessed value of the land portion of \$49,270. If the salvage was less than the cost of demolishing the structures, these percentages would be even higher.

A point carefully investigated in this study of 18,000 properties in Dayton was to see if a low ratio of assessed building values to land values was a reliable indicator of blighted areas. The expected indication failed to materialize. This result agreed with a 1959 study of 2,000 blighted properties in New York City.¹⁵ In this latter study the ratios for the

¹² This rule is relevant to commercial property where no suitable sales data are available and the value of the property must be estimated from income or rental data.

¹³ *Life*, Feb. 12, 1965, p. 76.

¹⁴ "Taxation and Urban Blight," *American Journal of Economics and Sociology*, No. 4, October, 1962, p. 15.

¹⁵ *Ibid.*, p. 10.

blighted properties were almost exactly the same as for the entire Borough of Manhattan. It was concluded that land in slum areas is not assessed in terms of market value, but is written down to reflect the deterioration of the neighborhood.

Both the facts and a common misinterpretation of the facts are revealed in the following statement by William L. Slayton, Commissioner of Urban Renewal:

In large measure, the growth and persistence of blight has its roots in the inability of private enterprise to rebuild without aid the deteriorating parts of the city's structure to meet changing needs. There are two basic obstacles. First, the entrepreneur faces the problem of assembling a number of parcels, under diverse ownership, to create a tract large enough to support efficient, modern development and at the same time withstand the effects of adjacent blight. One or two "holdouts" can and sometimes do block his plans.

The second obstacle is the tremendously high cost. Acquisition costs . . . often reflect inflated, speculative values. They also include costs of existing structures, which though deteriorating and obsolete, do have an economic value that becomes a significant item of cost when they are demolished to make way for new buildings.¹⁶

The "inflated, speculative values" which ordinary owners demand and the fantastic prices "holdouts" demand are, of course, for land, not for structures. The so-called economic value of existing structures is also largely that of land and of the nonreproducible right to collect rents from structures, the like of which have not been allowed to be built for fifty or more years. After deducting operating and maintenance costs including fines for violation of housing laws,¹⁷ rent collection costs, and interest on the market value of the land and on the nonreproducible right to continue exploiting outlawed types of structures, any residue of income left to capitalize into a true structures value is very, very little. The primary reason that owners continue to pay taxes and otherwise maintain their legal title to these slum properties is in the hope that government or other philanthropic money will be forthcoming to pay them a handsome profit for the effort. The potential gains can be very large. The government has by its own admission¹⁸ been paying \$2.05 per square foot for land it subsequently resells at \$1 per square foot. The Urban Renewal program is a subsidy to

¹⁶ William L. Slayton, Statement before Subcommittee on Housing, U.S. House of Representatives, Nov. 21, 1963, U.S.G.P.O., p. 39.

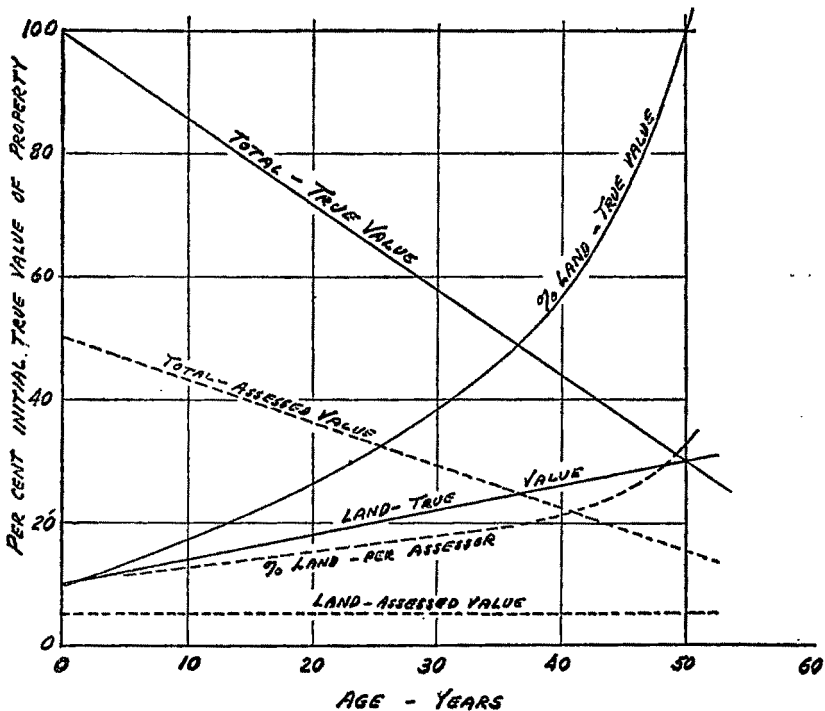
¹⁷ New York *Herald Tribune*, March 7, 1965, p. 14.

¹⁸ William L. Slayton, *op. cit.*

urban land speculators just as the various farm programs have been subsidies to rural land speculators.

Realistic allocation of total value between the land and structures portions of real estate is generally appreciated only for new construction, but this allocation changes with time, as shown in Figure 2. In this figure the

FIGURE 2



solid lines represent true market value of the whole property and of its land portion only. The broken lines represent typical assessed values for these same portions.

In the construction of this chart the following assumptions were made: (1) values are expressed in constant dollars to eliminate the effect of changes in the price level, (2) cost distribution is initially 90 per cent for the structure and 10 per cent for the land, (3) life of the structure is 50 years with straight line depreciation, (4) land value triples in 50 years, (5) assessed value is 50 per cent of market value, and (6) assessed value of the

land remains constant while that of the structure declines to 15 per cent of its initial value in 50 years. These assumptions do not, of course, fit every case, but they are typical. If anything, they exaggerate the value of the structures portion since they ignore the cost of maintaining useful life.

This chart indicates that, for these assumptions, the per cent of value attributed by the assessor to land is 11.5 after 13 years, 16 after 23 years, 20 after 37 years, and 33 after 50 years. More realistic percentages, however, shown by the solid curves are 20 after 13 years, 30 after 23 years, 50 after 37 years, and 100 after 50 years. Although this analysis is hypothetical, the conclusion that it draws of gross underassessment of land is supported by data from the 1957 Census of Governments. In this report the following data, based on measurable sales, are reported.¹⁹

TABLE 2

Class of Property	Number of cases studied	Ratio of ass'd to sales price	Ratio relative to class II
I. Nonfarm resid.	697,495	31.5%	1.56
II. Acreage & farm	146,114	20.5%	1.00
III. Vacant lots	303,745	23.7%	1.12
IV. Commercial	30,481	41.2%	2.0
V. Industrial	5,885	39 %	1.9

These data show that acreage and farm property were the most underassessed classes with vacant lots a close second, and that commercial property was the least underassessed. Clearly bare land is more underassessed than improved properties, and large rural tracts represented by farms and acreage are more underassessed than small vacant lots of urban areas. This bias in assessing property reflects American preoccupation with income accounts and neglect of capital accounts. For one reason or another, people feel that property which is productively employed and brings to its owner an income of cash or personal enjoyment should be taxed more heavily than undeveloped or underdeveloped land.

For all these reasons the validity of Goldsmith's allocation of real property value between land and structures, as shown in Table 3, is questioned. His allocation is all the more difficult to understand in view of the fact that he indicated in 1951²⁰ that land under residential property represented

¹⁹ "Taxable Property Values in the U.S.," 1957 Census of Governments, Vol. V, U.S.G.P.O., June, 1959.

²⁰ R. W. Goldsmith, "A Perpetual Inventory of National Wealth," *Studies in Income and Wealth*, Vol. 14 (National Bureau of Economic Research, Princeton University, 1951), pp. 30-1.

15 to 20 per cent of the total value of such real estate, and land under commercial property represented 40 per cent of its total value.

In 1945 Goldsmith adopted a new basis for allocation. The fraction of residential property values assigned to land was dropped from 19 to 13 per cent. Unquestionably the value of structures relative to land in-

TABLE 3
REAL PROPERTY
(billions, constant dollars)

	1900	1929	(a)	1945	(b)	1956	1958
RESIDENTIAL PROPERTY							
Structures	\$76	\$200	\$184		\$211	\$287	\$304
Land	19 20%	50 20%	43 19%	13% 31	42 13%	45 13%	
Total	95	250	227	242	329	349	
FARMS & FORESTS							
Res. struc.	\$7.6	\$13.4	\$11.7		\$12.7	\$15.3	\$15.5
Nonres. st.	6.0	11.3	8.5		9.5	12.4	12.7
Structures	13.6	24.7	20.2		22.2	27.7	28.2
Land	41.7 76%	52.1 68%	51.5 72%	73% {	53.8 50.9	68% {	52.9
Forests					6.4 6.8		6.9
Total	55.3	76.8	71.7	82.4	85.4	88.0	
NONRESIDENTIAL, BUSINESS							
Structures	\$48.9	\$116.0	\$94.5		\$92.8	\$127.3	\$136.4
Land	16.2 25%	39.5 25%	27.9 23%	21% 24.2	29.4 19%	31.7 19%	
Total	65.1	155.5	122.4	117.0	156.7	168.1	

Source: Goldsmith, R. W., *Economic Almanac 1964*, Nat. Indus. Conf. Bd., pp. 144-5.

creased very significantly that year. An artificial shortage of homes and other structures resulting from the war, and the return of millions of servicemen with accumulated purchasing power, created an inflated price structure for the limited supply of existing dwellings and other structures. As new construction caught up with demand, the relative values of land and structures should have returned to a more normal state, but Goldsmith's figures do not show this. Shannon, however, reported that the fraction due to land of *new* residential property was 10 per cent in 1946 and 25 per cent in 1964.²¹ The land fraction for old properties would be, of course, even larger.

²¹ M. Shannon, Rochester (N.Y.) *Democrat and Chronicle*, Feb. 2, 1964, p. H1.

Because of these inadequacies in existing estimates of land values, a new estimate has been derived for 1956 using data from the 1957 Census of Government²² and the allocations shown in Table 4. These allocations

TABLE 4
ESTIMATES OF TOTAL LAND VALUES

	Assessed value ^a (millions)	Ratio of ass'm't ^a	Fraction due to land		Total land values (billions)	
			Initial	@ 20 yrs	Author	Goldsmith
Resid. nonfarm	\$113,505	0.315	0.15	0.30	\$108	\$55
Acreage & farms	29,083	.205	0.80	0.85	120	74
Vacant lots	4,763	.23	1.00	1.00	21	—
Comm. & Indus	<u>58,011</u>	.40	0.30	0.45	<u>65</u>	<u>65</u>
Total					\$314	\$194

^a "Taxable Property Values in the U.S.," 1957 *Census of Governments*, *op. cit.*

were derived from (1) the indicated initial fraction due to land for the various classes of property. (2) the assumptions of Figure 2, and (3) a mean structure age of 20 years.

This new estimate of \$314 billion does not by any means include the value of lands within the continental United States. It does not include tax exempt properties, subsoil resources, or a truly significant portion of the value of recreational lands.

This paper has hardly more than described a problem. This problem of accurately estimating the true market value of nonreproducible capital assets in the real world of business is, however, of the greatest importance. Only when this aggregate value is placed in its proper perspective with other inputs of the economy, and the extent to which it can be inflated or deflated is appreciated, can economists truly hope to understand the workings of the real American economy.

Avon, N. Y.

²² "Taxable Property Values in the U.S.," *op. cit.*

Panama Extends its Sea Frontier

ASSURING ALL MEN equal access to natural resources, such as industrial sites, agricultural tracts, mining lands and the like, is possible today through various techniques, each of which is suited to the type of resource involved. For example, the urban land value tax, the agricultural land value tax with productivity allowance and similar adjustments, mineral severance taxes, forest severance taxes, fish weir leases under annual or biennial competitive bidding, and so on. Each is a specially tailored system of fiscal devices with one aim: to assure the most efficient and socially desirable exploitation of the resource so that its full benefits inure to each member of society and so that the user receives the full value—to the last dollar—of his real economic contribution but not a single penny in unearned income. This would make paupers of the J. Paul Gettys of our time and many of the fat cats who pose as industrialists, capitalists, entrepreneurs and corporate managers but who are in fact mere speculators, mere exploiters of the brain and brawn of others or mere recipients of windfall incomes.

When such equal access is assured, a substantial expansion of production and a higher level of living results for all the people. Combined with socially suitable policies for science and technology, this expansion of production and elevation of the level of living can be pressed even higher.

The point is illustrated by recent experience in the Republic of Panama. In the past seven years, the Panama Bureau of Statistics reports, the volume of fish caught in the territorial water of Panama has increased between six and seven-fold. It rose from 23.7 million pounds in 1960 to 159.6 million in 1966. The value of the catch rose from \$5.8 million in 1960 to \$22.7 million in 1961.¹ This was achieved by national economic and fiscal policies that tended to assure equality of access to the resources, by policies for exploitation of the resource and by promotion of the development of the industries dependent on it which encouraged expansion of production rather than its undesirable limitation or contraction.

It is sad that the parasites who control our resources (which reward their antisocial activities by making them richer and richer) cannot be given the privilege of earning their livings by socially useful work, such as that which enabled the Panama fishermen to set this notable record, an inspiration for all developing countries.

Will Lissner

New School for Social Research, New York

¹ *La Estrella de Panama*, Panama City, Panama, August 26, 1967.

Where Society's Claim Stops:
*An Evaluation of Seligman's
Ethical Critique of Henry George*

By ROBERT V. ANDELSON

IN THE DISTRIBUTION of wealth, the just satisfaction of individual claims requires that society's claim be also justly met. Such is the most general crux of Henry George's message. But where does society's claim rightly stop? George's answer to this question set forth boundaries sharp and well-defined. In the hands of others, the boundaries of society's claim have been so far extended as to constitute no boundaries at all, and the claims of individuals proportionately reduced to nothing.

Among these others, few have had the influence of Professor Edwin R. A. Seligman (1861-1939), long-time doyen of American tax economists. As one who advocated an extended view of society's claim, Seligman overlooked no opportunity to challenge the restricted view of George. While most of his objections along this line had been advanced in one form or another by earlier writers, they achieved their greatest impact under the aegis of his authority. Such attempts as have been made to counter them have mainly taken place outside the normative stream of economic literature and have hence been but little felt despite their cogency.

The recent publication of Steven B. Cord's valuable study, *Henry George: Dreamer or Realist?*,¹ is but one of the latest manifestations of a revived appreciation of George as a social thinker of contemporary pertinence. Reviewed with disappointing brevity by Charles Albro Barker in the July, 1966, issue of *The American Journal of Economics and Sociology*, Cord's book is a critical analysis of the way in which major American economists and historians have dealt with George over the past three-quarters of a century. One conclusion which emerges from the book is that the revived appreciation tends to be limited to certain rather superficial aspects of what George proposed, and does not preclude the concurrent acceptance of ideas antithetical to some of his most fundamental premises. This may be viewed, at least in part, as a testimony to the durability of attitudes which Seligman helped greatly to engender. For this reason it is especially to be regretted that Cord's treatment, while

¹ Steven B. Cord, *Henry George: Dreamer or Realist?* (Philadelphia: University of Pennsylvania Press, 1965).

masterful in most respects, exhibits an unwarranted readiness to acquiesce in some of the Columbia professor's strictures.

The moral rationale for George's system rests upon two logically independent but complementary arguments, one primary and the other secondary. The first of these is the argument that since God created the earth for the use of all men, no one has the right to arrogate to himself exclusive access to any portion of it without indemnifying those thereby denied access. The indemnity, amounting to the market value of the advantage, *i.e.*, ground rent, is seen as a divinely-provided fund which should be used by the community to meet general social needs.

The secondary argument is that inasmuch as the market value of raw land is wholly a social product, that value should be appropriated by society as the most "natural" and equitable source of public revenue. The primary argument is directed, at least initially, against private ownership of land and espouses the public appropriation of ground rent simply as a mechanism whereby such ownership may be rendered ethically and practically innocuous. The secondary argument, on the other hand, bypasses the matter of land and attacks the question of ground rent directly.

Both arguments, it should be noted, assume the labor theory of ownership, which in turn is rooted in the doctrine of natural rights. Given classical expression in Locke's *Second Treatise of Government*, the labor theory of ownership asserts that since the individual has an inherent right to his own person, he has a right to his labor as an extension of his person, and therefore a right to whatever that labor produces when applied to the opportunities afforded by his natural environment. This product he may consume, save, give away, bequeath, destroy or exchange at will. But inasmuch as land is not a product of human labor, it may legitimately be treated as private property only so long as there is "enough, and as good, left in common for others."² Translated into economic terms, this means only so long as it has no market value. Implicit in Locke's position is a corollary upon which George laid emphasis: "... as labor cannot produce without the use of land, the denial of the equal right to the use of land is necessarily the denial of the right of labor to its own produce."³

Seligman's ethical critique of George is summarized in the third chapter of his prestigious *Essays in Taxation*, which also contains a number of pragmatic objections not germane to this discussion. It begins with the

² Chapter V, paragraph 27.

³ Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1962), p. 334.

misleading statement that "the essential feature of the Single Tax is the singleness of the tax. . . ."⁴ In his essay, "The Classification of Public Revenues," he defines a tax as "a compulsory contribution . . . to defray the expenses incurred in the common interest of all, without reference to special benefits conferred."⁵ George's proposal for the public appropriation of ground rent is not in this sense a proposal for a tax at all, but rather for a public or quasi-public price to be placed upon the special benefit received from society by the holders of land titles. As a concession to popular usage, he sometimes referred to it as a tax, but he never considered the term descriptively accurate.

Nor did George regard the "singleness" aspect of his proposal as its essential feature. He rejected all true taxes as arbitrary and unjust because not proportionate to benefits. But his system does not exclude the theoretical possibility of public charges for special benefits other than the privilege of monopolizing the "opportunities which nature offers impartially to all," although he viewed such other benefits as comparatively trivial. Neither does his system exclude the theoretical possibility of a uniform charge for socially conferred benefits available to everyone; he merely held that those who enjoy such common benefits should not be made to pay for them until those who enjoy special benefits at the expense of all have paid for these in full.⁶ He anticipated that if this were done, the revenue would be sufficient to render a more general levy superfluous, and there is evidence that in this he may have been correct. Insofar as monopolistic privilege begets social evils which give rise to public expense, his reform, to the extent that it would extirpate such privilege, would concurrently reduce the need for public revenue. Furthermore, the potential ground rent fund is much larger than is commonly supposed.⁷

Seligman gets his critique under way with a sweeping indictment of the doctrine of natural rights, which he claims has been proven incontrovertibly by modern jurisprudence and political philosophy to be mistaken.⁸ This claim he grounds upon the fact that *belief* in the doctrine has been demonstrated to be a phenomenon lacking in historical catholicity—a fact which actually, of course, in no way invalidates the doctrine itself. However, this *nonsequitur* need not occupy us further, for Seligman con-

⁴ E. R. A. Seligman, *Essays in Taxation* (9th ed.; New York: The Macmillan Company, 1923), p. 68.

⁵ *Ibid.*, p. 432.

⁶ Cf. *Progress and Poverty*, p. 20.

⁷ Cf. Cord, *op. cit.*, pp. 122, 191-93.

⁸ Seligman, *op. cit.*, p. 69.

tends that even if the natural rights doctrine could be accepted, the labor theory of ownership would still be false.

Individual labor, he asserts, has never by itself produced anything in civilized society. The very conditions which make production (save at the most primitive and rudimentary level) possible are the result of the contributions of the community. Civilized production depends upon a general fund of knowledge which has been built up through generations of technological experimentation. It depends upon opportunities for transportation, marketing, and the like, which the individual finds already at hand, a legacy from others. It depends upon the materials and tools he uses, made available by countless men and women the specific identity of most of whom he cannot but be ignorant:

Take, for example, the workman fashioning a chair. The wood has not been produced by him; it is the gift of nature. The tools that he uses are the results of the contributions of others; the house in which he works, the clothes he wears, the food he eats (all of which are necessary in civilized society to the making of a chair), are the result of the contributions of the community. His safety from robbery and pillage—nay, his very existence—is dependent on the ceaseless cooperation of the society about him. How can it be said, in the face of all this, that his own individual labor wholly creates anything? . . . No one has a right to say: This belongs absolutely and completely to me, because I alone have produced it. Society, from this point of view, holds a mortgage on everything that is produced.⁹

All private ownership is justified, therefore, only because and to the extent that it has social utility. Since all property is pre-eminently a social product, what a man owes society should be measured by how much he owns, and the amount of his tax governed by his ability to pay.

The above reasoning really consists of three separate lines of argument, for it is clear that three distinct factors have gone into the making of the chair apart from the labor of the chairmaker. First, there is the wood. Although, as Cord points out, only as uncut virgin timber is wood, strictly speaking, a gift of nature,¹⁰ we may, for purposes of discussion, regard it as representing the element of natural opportunity, *i.e.*, land, upon which all production ultimately rests. Second, there is the mental and physical labor of other individual producers, signified by the chairmaker's tools, his clothes, his food, etc. Finally, there is his safety from robbery and pillage, guaranteed by government. Only this last may be considered the contribution of society as an organized body not separable into its component members.

⁹ *Ibid.*, p. 71.

¹⁰ Cord, *op. cit.*, p. 83.

Perhaps Henry George's most distinctive offering to social thought is his insistence that the cost of the governmental factor should not be drawn from wages and interest, but rather met from the natural factor as an inevitable accompaniment of the full exercise of the protective function. By appropriating ground rent, government would not only acquire the means (he believed sufficient means) for its own support, but also perform one of its most vital duties—that of protecting citizens from pillage in the form of the monopolistic private expropriation of natural opportunity. From that which no private labor has produced, he taught, arises a social fund which, if taken by society as an organized totality, should prove adequate to sustain its operations as an organized totality. Why should the chairmaker pay tribute to a private landowner for his wood, George would have asked, when the landowner did nothing to produce it? Instead, let him make his payment to society, for the wood is a natural opportunity in limited supply, and the market value of timberland delineates the degree to which that opportunity is not available to all who wish to use it. His payment (made via the landowner, who could retain a small percentage of it as a collection fee) would reimburse the other members of society for the opportunity of which his acquisition has dispossessed them, and at the same time support the protection which society, through government, affords to him and them alike.¹¹ George would concur with Seligman that society holds a mortgage on the chair for the wood of which it was fashioned and the protection under which it was produced, but he would say that the expense of the latter can and should be met by the payment for the former.

This leaves the middle factor which went into the making of the chair—the mental and physical labor of other producers, drawn upon by the chairmaker in his use of tools, housing, clothes, food, and the like. As Cord incisively remarks:

. . . the chairmaker satisfies his obligations to the society that provided him with these things by paying for them. Should he pay twice, once

¹¹ The foregoing analysis accepts, for the sake of argument, the adequacy of Seligman's illustration, if not the logic of his inferences. It should, however, be remembered that the incidence of payment finally rests upon the chair's ultimate purchaser, regardless of whether the payment goes to the landowner or to society. One sometimes hears it said that the landowner cannot shift a public charge ("tax") on land to the consumer. This is a loose way of phrasing a proposition with which almost all economists, including Seligman, agree—that such a charge cannot increase ground rent and raise commodity prices. (Cf. Seligman, *The Shifting and Incidence of Taxation*, 4th ed., 1921, pp. 281–87.) In fact, it tends to decrease prices by "squeezing the speculative water" out of land values, for if a high enough percentage of ground rent is taken by the taxing authority, the incentive to hold land off the market disappears, along with the inflated prices due to artificial scarcity.

by reimbursing the original owners of these goods and services and then again by turning over a share . . . of his own chairmaking income? It would seem that one payment to society and its members should be morally and practically sufficient.¹²

But, it may be argued, the middle factor includes not merely those goods and services for which the chairmaker pays, but also a host of others for which he does not—the general cultural and technological advantages, both tangible and intangible, built up through the centuries by the efforts of individuals upon whose shoulders we all stand. Yet if not paid for by the chairmaker, these advantages have been paid for nonetheless, in whatever returns for which they were initially exchanged. If, because of monopoly or other forms of exploitation, these returns were in many instances more meager than they would have been under a free market, the chairmaker is not placed under obligation for this reason. The modern tourist who thrills to the sight of the pyramids does not incur a debt because they happened to be built by slaves! Although perhaps an unintended beneficiary of exploitation, he was not its agent; its victims are, in any case, beyond the possibility of recompense, and it is to no one's detriment that he avails himself of the advantages for which he does not pay.

In contending that this middle factor constitutes a justification for a mortgage by society upon production, Seligman repeats a fallacy which goes back to John Stuart Mill¹³ and was first advanced in this country by Edward Bellamy,¹⁴ namely, that the division of labor imposes upon the individual who is its beneficiary an obligation which goes beyond that which he satisfies in the ordinary process of exchange.

The division of labor assumes by definition the reciprocal satisfaction of its participants, for by division, rational division is inferred, and without reciprocity division must in the last analysis rest upon arbitrary elements. Society does not exist apart from concrete individuals, and its function (however much perverted in historic practice) is to permit them the reciprocal satisfaction of their wants. If, therefore, they are not free to exchange goods and services on a voluntary basis, it is evident that social institutions obtain which thwart the function of society itself. If they are free to make such voluntary exchanges, they will do so only in terms of mutual satisfaction as determined by supply and demand. When

¹² Cord, *op. cit.*, p. 83.

¹³ John Stuart Mill, *Principles of Political Economy* (London: Longmans, Green and Co., 1888), Chapter II, paragraph 1.

¹⁴ Edward Bellamy, *Equality* (New York: Appleton & Co., 1897), Chap. XIII, pp. 88–91.

once, under such conditions, an exchange has been consummated, its participants have no further claim to a return. Although others, not parties to the exchange, may benefit incidentally from it, no liability is thereby incurred by them, for (1) they did not enter into the transaction, and (2) those who did enter into it have already been fully recompensed according to the stipulations upon which the exchange was based.

This is not to say, of course, that the exchange may not anticipate the involvement of additional parties, but the obligation of such parties does not arise unless and until they agree to meet whatever terms are set by the makers of the original transaction. In other words, while an initial transaction may lead to new ones, it does not of itself impose a liability upon anyone not a party to it. The division of labor as manifested in the marketplace affords no justification for a social mortgage on production, for, if unimpeded, the operation of the market automatically provides for the reciprocal satisfaction of its participants. This is brought out in more detail by Max Hirsch, who also effectively refutes another line of argument against the labor theory of ownership—that ability and the value of services are social products, and that their reward therefore rightfully belongs to society as a whole.¹⁵

Since the labor theory of ownership does not purport to justify the private ownership of nature, Seligman's point about the wood used by the chairmaker is irrelevant. Since the labor theory can only be enforced by the protective activities of government, it is in no way invalidated by the recognition that the cost of those activities represents a lien on ownership. By refusing protection, an individual may theoretically divest himself of such a lien, but in thus placing himself outside of the protective system he makes himself presumptively its enemy, forfeiting his claim to the right of ownership by declining to assume its correlative responsibilities. However, since the costs of protection can be met, at least in part, by a charge for the privilege of treating as private property something not produced by labor, society's lien on ownership to pay these costs does not become morally operative until the full rent-yield of nature, as determined by the market, has been collected and applied against them.

Cord adverts to Seligman's repetition of the time-worn notion that "since land is bought with the fruits of human labor, the labor theory [of ownership] can justify the private ownership of land."¹⁶ Like the proposition just dealt with, that the labor theory can justify the ownership of producible goods (*e.g.*, chairs) by society, this is an attempt to dis-

¹⁵ Max Hirsch, *Democracy Versus Socialism* (4th ed.; New York: Robert Schalkenbach Foundation, 1948), pp. 221–27.

¹⁶ Cord, *op. cit.*, p. 83.

credit the labor theory as self-contradictory. Cord answers it succinctly: "Exchange or purchase cannot make an unjust title just; after all, one might buy stolen property or a slave, and yet a rightful title would not be acquired by such a purchase."¹⁷

Cord believes that "although George's labor theory [of ownership] merits respect, recent developments regarding taxation force some shortrun modification of it."¹⁸ Yet his suggestions in this connection do not really touch the labor theory of ownership as such, but merely George's application of it as embodied in the proposal for a levy falling exclusively upon ground rent. We have already shown that George's theory does not actually exclude the possibility of other benefit charges should the rent fund prove inadequate to meet such obviously legitimate expenses as the cost of public safety. Since such things as police protection and national defense are benefits vital to the common weal, and upon which every member of society may lay equal claim, it is patently right that each should bear an equal share of any cost which may exceed that which can be financed from the rent fund. The same principle obtains from a perhaps more local standpoint with respect to the expenditures necessary for safety requirements like fire and flood control and the control of communicable disease.

However, Cord goes further, suggesting that still other expenditures are needed to maintain "that essential condition of true democracy, equality of opportunity."¹⁹ In this category he mentions expenditures for free medical care for the indigent, and compulsory unemployment insurance, and remarks that "many people argue" that the list should include expenditures for farm price supports, public housing, tariff protection, and post office deficit—additions which he is evidently not himself inclined to accept.

Even if all these things were demonstrably requisite to equality of opportunity, their legitimacy might well be questioned on the ground that whereas the function of insuring *equal freedom of opportunity* falls properly within the role of government, the function of insuring equality of opportunity does not. If government seriously undertakes to insure equality of opportunity, it must go beyond preventing predation and the unequal advantages which arise therefrom and seek to redress inequality resulting from differences in native endowment. It can only do this by conferring special privileges on some at the expense of others, and this is precisely what it does when it uses tax money for the purposes just

¹⁷ *Ibid.* Cf. also a vigorous and extended discussion in Hirsch, *op. cit.*, Chapter VII.

¹⁸ Cord, *op. cit.*, p. 230.

¹⁹ *Ibid.*

listed. But, as Cord comments, from a moral standpoint "the taxing of one individual to benefit another cannot be condoned."²⁰ Coercive monopolization of opportunity could be largely obviated by the public appropriation of ground rent. For, as stated in the eloquent prose of Winston Churchill, the land monopoly, while not the only monopoly, "is by far the greatest of monopolies—it is a perpetual monopoly, and it is the mother of all other forms of monopoly."²¹ It seems probable that if freedom of access to natural opportunity were thus guaranteed, the number of deserving indigent would be so reduced that their needs could be cared for without recourse to compulsory support.

In his impressive study, *The Philosophy of Henry George*, George Raymond Geiger essayed to reconcile the labor theory of ownership with the social utility theory.²² In like vein, Cord asserts that in the last analysis "there may be no real difference between the social utility and labor theories of property, except in the matter of emphasis,"²³ because "what is best for society is that each man should receive the fruits of his labor."²⁴ While advocates of the utility theory might accept this notion of what is best for society as a very general long-run proposition, most would allow for so many exceptions in specific cases as to render it useless as a regulating principle. Furthermore, to say that in the long-run justice promotes utility is not the same as saying that utility ought to be the standard for justice. In fact, the two theories cannot be reconciled, for each asserts a different norm as ultimate. Yet to accept utility as ultimate is to follow a will-o'-the-wisp, for it always presupposes something else in terms of which it is defined.

Allied with Seligman's attack upon the labor theory of ownership is his attack upon the concept of ground rent as a uniquely social product. Whereas according to the former, inasmuch as nothing is the product of unaided individual labor, social utility and not labor constitutes the proper criterion for ownership; according to the latter, inasmuch as nothing can be long produced for sale without social demand, society holds a mortgage upon all commodities. Thus George's secondary argument—that because ground rent is socially produced it constitutes a distinctively appropriate basis for public revenue—comes under fire.

Cord concedes, albeit reluctantly, this point,²⁵ insisting that the justi-

²⁰ *Ibid.*, p. 231.

²¹ Winston S. Churchill, *Liberalism and the Social Problem* (London: Hodder & Stoughton, 1939), p. 318.

²² George Raymond Geiger, *The Philosophy of Henry George* (New York: The Macmillan Company, 1933), p. 138.

²³ Cord, *op. cit.*, p. 83.

²⁴ *Ibid.*, p. 231.

²⁵ *Ibid.*, p. 232.

fication for the public collection of ground rent can be made to rest squarely upon George's primary argument and is weakened by appeal to the secondary one, which he dismisses as untenable despite its facile and seductive nature.²⁶ However, as Geiger remarks in his defense of the secondary argument, economic value is determined, not by demand alone, but by the relationship between supply and demand:

the press of population and all the amenities of civilized society express themselves in the demand for land—as they do in the demand for everything else—but whereas the demand for land *must* raise land rent and land value, the value of consumer goods and capital goods, will rise *or* fall, not merely as demand varies, but also in proportion to the elasticity of a reproducible supply in meeting that demand.²⁷

This he illustrates by pointing out that in large centers of population, where rent is invariably high, the value of labor products, all other things being equal, is comparatively low. Land is supremely characterized by its inelasticity of reproducible supply.

Given an unmonopolized supply of any economic element, in the production of which there is some measure of competition, increased demand and higher societal organization may not result in increased value. But since there is essentially a monopoly of land and since it is fundamentally irreproducible, increasing demand and social organization *must* raise land values.²⁸

It must be noted that the reasoning just quoted hypothecates an unmonopolized supply of consumer and capital goods. However, Seligman maintains that "if there is one thing that distinguishes the modern age, it is the development of economic monopolies of all kinds," and that the "‘unearned increment’ of land is only one instance of a far larger class."²⁹ For purposes of example, he draws a parallel between increase in land values and the rising earnings of a newspaper because of the growth of a community. Jackson H. Ralston comments that in order for such a parallel to be valid, "the newspaper plant must be closed, the machinery left in place and all labor employed in it discharged. In that case, how much unearned increment will the newspaper building and the machinery, now idle, put into the pocket of the owner because they are surrounded by an industrial community?"³⁰

²⁶ *Ibid.* Cf. also p. 127.

²⁷ Geiger, *op. cit.*, p. 108. Cf. also p. 96. Geiger's defense is somewhat blurred by his characterization of capital as a social product (p. 108). But the burden of his discussion is to demonstrate that this is only partially the case, whereas it is wholly true of land values. When he speaks of the supply of capital as being socially determined, he does not mean that it is primarily a social product, but that it expands and contracts in response to social demand.

²⁸ *Ibid.*, p. 108.

²⁹ Seligman, *Essays in Taxation*, pp. 81, 83.

³⁰ Jackson H. Ralston, *What's Wrong With Taxation?* (San Diego: Ingram Institute, 1932), p. 58.

The pertinence of Seligman's thrust as to the ubiquity of monopoly in consumer and capital goods is dispelled by a consideration of the seminal and pervasive character which land monopoly reveals to anyone who looks beneath the surface. The recognition of this character, dramatically proclaimed with Churchill's castigation of land monopoly as "the mother of monopoly," finds somewhat more sedate expression in the following statement by John R. Commons, an economist contemporaneous with Seligman: "If the size of fortunes is taken into account, it will be found that perhaps 95% of the total values represented by these millionaire fortunes is due to those investments classed as land values and natural monopolies, and to competitive industries aided by such monopolies."³¹ Geiger concludes that:

no matter how complete may be the capitalistic control of machinery and all the actual instruments of production, any significant separation of that "capital" from mineral, timber, fuel, railroad "land," would be fatal to monopoly. . . . It seems that, Antaeus-like, capital derives its strength from land, and it would appear that the breaking of land monopoly—which must follow once the value of land has been socialized—might operate upon the very foundations of capitalistic monopoly.³²

More formidable than Seligman's objection to the secondary argument is one raised by Charles B. Spahr, another economist of the period. Even if land values are socially created, he insists, not all members of society are equally responsible for creating them. Some, in fact, may actually decrease them. Why, therefore, should ground rent be equally enjoyed, as George proposed, by all members of a given community?³³ Yet this objection, too, loses force when subjected to the following considerations:

To begin with, the extent to which an individual increases or decreases the value of a site has little or no relationship to whether or not he owns the site. Hence, however valid it may be otherwise, Spahr's objection constitutes no argument that rent should necessarily be appropriated by the owner. Secondly, everyone adds an equal unit to site-value merely by adding a population unit to the community where a site is located, even though, over and above this, individuals may differ in their effect on rent. Whereas the former effect is measurable, the latter is not and should therefore accrue to the community at large. Fourthly, land values are in part due to the presence of good government and valuable public services. In a democratic community, these things must be attributed

-- *The Distribution of Wealth*, p. 253. Cited by Cord, *op. cit.*, p. 72.

³² Geiger, *op. cit.*, p. 260 (footnote).

³³ Charles B. Spahr, "Single Tax," *Political Science Quarterly*, December, 1891. Cited by Cord, *op. cit.*, p. 70.

to the general voting public, rather than to specific individual citizens. Finally, even where an individual contributes nothing to (or even decreases) land values, he still has a legitimate claim to be indemnified to the extent that private land ownership has denied him equal freedom of opportunity in the use of nature. Thus even if George's secondary argument were rendered nugatory by Spahr's objection, his primary argument would still vindicate the public appropriation of ground rent.

To return to Seligman—in the last analysis his attack upon the concept of land value as a uniquely social product represents an approach more forensic than substantive. For behind his effort to extend the notion of social increment as a source of public revenue beyond the limits defined by George lies an organismic theory of the State, which ultimately justifies the public confiscation of any kind of income, regardless of its source, his view of equity demanding only that the confiscation be proportioned to ability to pay. He sees the State as a unity which transcends the sum of its component members:

[the individual] does not choose the State, but is born into it; it is interwoven with the very fibres of his being, nay, in the last resort, he gives to it his very life. . . . We pay taxes not because we get benefits from the State, but because it is as much our duty to support the State as to support ourselves or our family; because, in short, the State is an integral part of us.³⁴

The government, indeed, must do something for the community in return for the support which it receives. But this reciprocal obligation on the part of the government is not toward the individual as such, but toward the individual as a part of the greater whole. The special benefit is swallowed up in the common benefit. . . . In its ideal form, at all events, the State must be likened not to a joint-stock company, but to a family. The citizens are not stockholders but brethren, animated, if they are patriots, by the same ideals and by the same fine sense of cooperation in the common interest.³⁵

This romantic theory, doubtless carried back by Seligman from his student sojourn in Germany, is grounded upon an interpretation of human nature which comports ill with the hardheaded empiricism affected by him as fitting to a social scientist. Seligman takes repeated pot shots at George's "utopianism,"³⁶ yet what is more utopian than the notion that such exalted motives can be safely made the foundation of a political order? In actual application its effect has ever been to undergird the hegemony of authoritarians who declare with Robespierre, "Our will is the general will."

³⁴ Seligman, *Essays in Taxation*, p. 73.

³⁵ *Ibid.*, p. 337.

³⁶ *Ibid.*, pp. 69, 97. Also his concluding remarks at the Saratoga convention of the American Social Science Association, reported in *The Journal of Social Science* (Boston and New York), Vol. 27, p. 98.

As an authority both restraining and restrained, the State is necessary and legitimate. As an absolute and omnicompetent power, from the standpoint of psychological realism it is both an ethical travesty and a practical absurdity. That personal fulfillment comes only as the individual loses himself in a preoccupation with some goal beyond himself is a truth which has been recognized by moral and mental theorists for centuries. But this truth cannot without unconscionable risk be made the foundation of a political philosophy. Considering the difficulty of finding men who can be trusted not to abuse the relatively modest function of insuring the reciprocal freedom of citizens to choose and follow their own separate goals, it is fatuous to suppose that any leader, elite group, or majority of men is so virtuous and wise as to qualify for the task of choosing goals to which all shall be compelled to give allegiance. Reciprocal freedom is the only goal the acceptance of which can safely be made operatively incumbent upon every citizen. Although George, in words attributed to Helen Keller, displayed "a splendid faith in the essential nobility of human nature,"³⁷ his system does not depend upon that faith. Instead of relying upon the beneficent use of unchecked power, it envisages its limitation and dispersion through decentralization and the extirpation of monopoly. As one examines George's thought against the horrors which manifest themselves increasingly as the final outcome of the logic of the total State, one cannot but conclude that he should be reckoned the realist, and Seligman, the dreamer.

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³⁷ This quotation has been cited for years in the annual brochure of the Henry George School of Social Science; its source is a letter written around 1930 by Miss Keller to the Robert Schalkenbach Foundation.

Accounting for World Trade

A COMPREHENSIVE, WORLD-WIDE, double-entry record of international trade and payments is the aim of a study, "Measuring Transactions Between World Areas," prepared by Herbert B. Woolley of the research staff of the National Bureau of Economic Research with the financial support of the Ford Foundation. (Columbia University Press in New York is the distributor).

The new study seeks to show that it is possible, with some effort, to fill the gaps in our present knowledge of international transactions. Measures of interarea merchandise trade have long been available. But for the first time this study has related to merchandise movements a

consistent and comprehensive set of measures for interarea services of different types, net unilateral transfers, and capital and gold flows. From these measures have also been derived the net multilateral settlements by which a particular country or area employed surpluses realized from transactions with one group of partners to settle deficits arising from transactions with its other partners—the element of multilateralism in world trade.

The statistical data are presented in the form of matrixes of transactions of different types between major countries or country groups for each of the years 1950 to 1954. The matrixes are "two-valued," each transaction being shown as registered both by the paying area and by the receiving area.

Referring to currently available statistics, Dr. Woolley states that the main elements concerning the United States are available, thanks to the full regional detail in which its balance-of-payments estimates are presented, but matching detail for other countries, even the most important ones, is frequently not available or even compiled. At present little effort is being made to fill in the gaps or to bring the available data together into a consistent and meaningful whole.

Woolley's two-valued matrixes provide insight into unrecorded capital flows in the years 1950–54. For that period he finds that "unaccounted capital and gold flows—*i.e.*, transactions reported from the credit but not the debit side—equaled half the additions recorded to official reserves outside the U.S." He further comments: "The pattern of error in the accounts indicated that, especially in times of political or currency crises, substantial foreign exchange earnings (apparently realized in good part on services account) moved into hidden capital and gold holdings. This result carries implications important for the interpretation of international financial crises in the postwar era.

The study is not addressed to policy issues but does have significant implications for policy. Observing that trade and payments relations between world areas are asymmetrical, the author stresses that therapeutic measures bear differently on different areas as they ramify out through a world-wide network of interarea relationships. He then comments that, despite all that has been written on the U.S. payments deficit, there is still inadequate attention given to the world-wide pattern of trade and payments relationships within which the unfavorable U.S. position is to be righted and to the necessity of recognizing the differential impact of measures to influence the flow of international transactions on different areas and hence back on the U.S. itself. . [From the National Bureau.]

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The U. S. Bureau of the Budget As Agency Evaluator: *Orientations to Action*

By L. L. WADE

ABSTRACT—The U.S. Bureau of the Budget has the important function of recommending to the President the size of agency "shares" in the federal budget. A major research problem, then, is: what standards and criteria are employed in the Budget Bureau in evaluating the agencies and in arriving at budgetary decisions which affect the positions and missions of the agencies of the executive establishment? One scheme of analysis has suggested on the basis of the Parsonian pattern-variables that public administrators tend to be specific, affectively neutral, universalistic, collectivity-oriented, and achievement-oriented in their evaluations of social objects.

To test this hypothesis, the pattern-variables were related to the operations of the agency, each on the basis of a single qualitative indicator, and applied in survey research conducted among the professional budget examiners and their superiors in two of the Budget Bureau's five examining divisions. The data indicate that, in fact, the respondents tended to be diffuse, affective, particularistic, collectivity-oriented, and achievement-oriented toward the federal agencies with which they deal. Thus they tended (on three of the pattern-variables) to adopt orientations more typical of the political partisan than of the public administrator, a result which, it is hypothesized, is due in part to the unique relationship that the Budget Bureau bears to the President. The results explain, in part, the insolvable nature of the conflicts that exist between the executive agencies and the Bureau of the Budget.

THE UNITED STATES BUREAU of the Budget's critical importance for the executive agencies in the national government derives from the allocative decisions which the bureau makes, decisions which have vital significance for the organizational security and power of the federal agencies. The full *social* importance of the Bureau of the Budget as an allocator of values becomes apparent when it is also realized that the impact of the bureau's decisions eventually transcends the boundaries of the federal establishment and becomes translated into values or deprivations for particular elements of the whole society.

To a significant degree, it is the Bureau of the Budget that must develop the annual work plan of the executive branch of the government; that is, it must propose how and for what the resources of the political system are to be allocated. In its role as allocator of resources, and because all claims and demands cannot be met within the limits of available resources, the bureau must *decide* between and among competing agency claimants for programs, funds, and personnel. The Budget Bureau, then, must *evaluate* agency demands and, within the structure of those demands, develop partial solutions to the allocative problem.

In a larger study, I have attempted to explain Budget Bureau decision-making as a product of the structure of agency demands and interests, of the bureau's system of role-relations and role-expectations, of the structure of bureau influence and communications, and of the social and economic biographies of the bureau's role-players.¹ Interlaced, these factors explain how and why the Budget Bureau's role-players approach their tasks of evaluating agency requests, of deciding "who gets what" out of the budgetary system. This exploratory paper tentatively seeks to develop a preliminary understanding of the decisional *consequences* of these manifold influences on evaluative behavior in the Budget Bureau. In short, with what criteria, upon what basis, do the Budget Bureau's role-players approach their evaluative mission? The conclusions reached here constitute a preliminary statement of the cumulative consequences of the decisional premises that mold and shape the outlooks, values, and perspectives of decision-makers in the Bureau of the Budget.

The approach to this problem consisted in the utilization of the pattern-variable conceptualizations of Talcott Parsons and his associates.²

I

THE PARSONIAN PATTERN-VARIABLE SCHEME logically exhausts (given the postulates of the Parsonian system) the approaches that an actor may adopt toward any social problem. The role-players in the Budget Bureau, when faced with the organizational requirement to express evaluative and allocative decisions, may be presumed to act within the analytical framework of the Parsonian categories.

Briefly, the pattern variables consist of five categories, or sets of alternatives, from which an actor must choose in any social situation. Each

¹ L. L. Wade, *Decision-Making in the U.S. Bureau of the Budget* (unpublished Ph.D. dissertation, University of Oregon, 1965).

² Talcott Parsons and Edward Shils, eds., *Toward a General Theory of Action* (Cambridge: Harvard University Press, 1951). The same general scheme is elaborated in much of Parsons' other writings as well.

of these categories involves a dichotomous alternative or choice. For virtually all role-players in any social system, a structure of societal role-expectations exists which defines the situation for an actor and which resolves the dilemmas posed by the dichotomies of the categories. Typically, role-players respond similarly in any situation because the structure of social role-expectations defines the situation in such a manner that any alternative response involves a violation of expectations and, hence, the possibility that social sanctions will be visited upon the deviant.

The patterns of evaluation which an actor may adopt toward an evaluative situation are: affectivity *vs.* affective neutrality; self-orientation *vs.* collectivity-orientation; universalism *vs.* particularism; ascriptive *vs.* achievement; and specificity *vs.* diffuseness.³

From 1952 until the spring of 1965, the Budget Bureau was organized into five examining divisions: Military; International; Commerce and Finance; Labor and Welfare; and Resources and Civil Works. In addition a number of offices (*e.g.*, Statistical Standards, Financial Management) provided cross-functional "backup" services for the divisions. The responsibilities of the divisions were broad and important: the divisions evaluated agency budgets, operations, and proposed legislation and developed recommendations on these matters for the Budget Director and the President. (A reorganization of the divisions in early 1965 has not changed these basic functions.) In January, 1964, an interview schedule was circulated among all of the sixty-one professional members of two examining divisions, Labor-Welfare and Resources-Civil Works, both of which were deeply and primarily involved in domestic affairs. Fifty-nine members of the sample population (or 95 per cent) responded. We therefore have a *census* of two important decision-making units in the Bureau of the Budget, and consequently we are able to interpret the data with considerable confidence. We do not have a random sample of all five divisions, however, and the results should be interpreted accordingly.

We incorporated into the interview protocols a series of questions designed to elicit from the respondents their estimates of how they went about the business of evaluating the executive agencies. It should be emphasized that the questions included in the questionnaire, and the indices resulting from the analysis of the responses to the questions, are essentially qualitative in nature. Nonetheless, it is believed that this paper develops a helpful interpretation of the cumulative premises upon which the members of two divisions in the Bureau of the Budget act in evaluating the demands from the agencies for funds, programs, etc.

³ For a full explication of the pattern-variable framework, see *ibid.*, pp. 76-84.

The questions intended to elicit information concerning evaluative orientations in the bureau divisions *vis-à-vis* the agencies required the respondents to appraise their own decision-making behavior.⁴ To derive a measure of the degree of affectivity *vs.* affective neutrality in the two divisions relative to the bureau's evaluation of the executive agencies, the respondents were presented with the question: "Do you, in making recommendations that affect your agencies, (a) usually make quick decisions (because of pressures of time, other work, or a desire to facilitate decision-making), or (b) usually evaluate carefully all the factors in a situation, even though this may delay decisions?" With respect to agency operations, an (a) response was taken to indicate the likelihood that the respondents were usually affectively oriented toward the agencies. A (b) response was taken to mean that the bureau's respondents tended to evaluate their agencies on the basis of affective neutrality.

To elicit a ranking of the bureau's respondents along the variable of self-orientation *vs.* collectivity-orientation, the respondents were confronted with the question: "In general, would you describe your attitudes toward the *goals* and *objectives* of the agencies with which you deal as (a) interested (desire your agencies to achieve their goals; regard the agencies' objectives as important), (b) disinterested (neutral toward your agencies' goals; regard one agency as much like any other), or (c) neither interested nor disinterested?" Answers to (a) were interpreted as evidence of the respondents' collectivity-orientations with respect to the agencies; the (b) and (c) responses were operationally considered to indicate the respondents' self-orientations as bureau evaluators of the agencies.

The question designed to yield some insight into the behavior of Budget Bureau staff members along the universalistic *vs.* particularistic line was: "Which of the following do you think *best* describes the viewpoint you follow in evaluating your agencies' proposals? (a) Certain agencies, because of their essential uniqueness, cannot be evaluated by the general standards and criteria developed to apply to all agencies, or (b) regardless of their operations and goals, all agencies should be evaluated by the same criteria and standards." An (a) response was taken as an indication that

⁴ The pattern-variables construct suggests a highly complex set of phenomena for which, ordinarily, one might desire several complex indices. In an exploratory analysis, however, the use of a single qualitative indicator to measure a complex phenomenon has often been used effectively. The reader should be reminded that, in the absence of more rigorous measurement, the absolute figures which are derived here from the indicators used in this study should be used with caution. For an example of the use of single qualitative indicators in the measurement of a complex phenomenon, see Paul Lazarsfeld and Allen H. Barton, "Qualitative Measurement in the Social Sciences: Classification, Typologies, and Indices," in *The Policy Sciences*, Daniel Lerner and Harold D. Lasswell, eds. (Stanford: Stanford University Press, 1951), p. 168.

the respondents were generally particularistic in their actions toward the agencies. A (b) response was interpreted as meaning that the respondents judged the agencies on the basis of universalistic standards.

A measure of functional specificity *vs.* functional diffuseness was derived from the responses to the question: "Which of the following *best* describes your viewpoint toward your duties *vis-à-vis* the agencies? (a) I tend to concern myself only with certain kinds of questions (*e.g.*, agency efficiency and economy, adherence to Presidential policies) and generally do not try to 'cover the waterfront,' or (b) I usually attempt to be involved with *all* or *most* aspects of an agency's operations." In this instance, an (a) response was considered as indicating that the bureau respondents approached and evaluated their agencies on the basis of functional specificity. A (b) response was interpreted as the respondents' diffuse orientation in their evaluation of the agencies.

Finally, a measurement of achievement *vs.* ascriptive standards which were applied by the two divisions toward the agencies was obtained by asking the respondents: "On balance, would you say that you usually evaluate your agencies (a) on the basis of the agencies' achievements in attaining their goals, or (b) on the basis of other factors (such as the President's attitude toward the agency)?" An (a) response to this question was taken as the measure of the extent to which the respondents applied achievement standards in their evaluations of the agencies. A (b) response was considered to measure the respondents' application of ascriptive standards in their evaluations of performances and proposals.

II

BEFORE PROCEEDING to an analysis of the data, we must return briefly to the problem of social role-expectations. It is particularly important to know if the respondents' role-playing in the Bureau of the Budget was consonant with social expectations. The Bureau of the Budget is, by any definition, a public bureaucracy, staffed, except at the highest levels, with career public administrators. If these are the relevant occupational characteristics of members of the Budget Bureau, we would expect the respondents to have engaged in decision-making within the structure of social role-expectations common to all public administrative organizations. In what does that structure of role-expectation consist, or, put another way, how are public administrators expected to behave?

While empirical evidence about this behavior is virtually nonexistent, there is some analytical evidence available. William C. Mitchell, for example, has speculated that the American public administrator is expected,

in his official role, to be affectively neutral, functionally specific, universalistic, achievement-oriented, and collectivity-oriented.⁵ Whether or not the Bureau of the Budget respondents in this study conform to this paradigm is a question to which the discussion now turns. It should be mentioned, however, that the formal location of the Bureau of the Budget in the Executive Office of the President, together with the bureau's legal mandate to assist the President in the exercise of his many duties, might act to sever the bureau from the social role-expectations common to other public bureaucracies. It should not be surprising, therefore, to find that the respondents fail to act within the structure of role-expectations posited by Mitchell. It may well be that the Bureau of the Budget listens to a different drummer.

Table 1 shows that the respondents did not in fact operate on the evaluative standards socially required of other public bureaucrats. Indeed, on only two of the five dimensions of the pattern-variables were the evaluations of the agencies made by the respondents consistent with the role-expectations that define appropriate conduct for most public administrators.

TABLE 1
The Pattern-Variables, Role-Expectations, and Role-Playing in
Two Bureau of the Budget Divisions

Role-Expectation of Public Admin- istrators ^a	Specific	Affective Neutrality	Univer- salistic	Collectivity	Achievement
Role-Playing Reported by Respondents	Diffuse	Affective	Particu- laristic	Collectivity	Achievement

^a "Occupational Role-Strains: The American Elective Public Official," *Administrative Science Quarterly*, Vol. 3 (1958), p. 216.

Responses to the measures strongly suggest that the respondents were achievement-oriented (75 per cent) and collectivity-oriented (88 per cent) in their role-playing *vis-à-vis* the executive establishment; this is in accord with the social prescriptions that surround the role of the public administrator. Contrary to those prescriptions, however, role-playing among the bureau respondents was predominately neither affectively neutral, functionally specific, nor universalistic. There was, instead, a substantial consensus among the respondents that their behavior was affective (66 per cent), functionally diffuse (73 per cent), and particularistic (86 per cent).

This divergence raises an important question: why did the bureau

⁵ William C. Mitchell, "Occupational Role-Strains: The American Elective Public Official," *Administrative Science Quarterly*, Vol. 3 (1958), p. 216.

respondents seem to vary from the role-expectations common to public bureaucrats in the American polity? A number of answers suggest themselves. First, role-expectations and concrete behavior are not unidimensional phenomena. The lack of a point-to-point correspondence between expectations and behavior results from a usually invariable degree of failure to socialize adequately some actors into a common system of action.⁶ Accordingly, the examination of behavior in the Bureau of the Budget, when compared to the social expectations that require alternative kinds of behavior, may reveal a measure of deviancy among the bureau's interviewees. More likely, perhaps, is the probability that role-expectations concerning the Budget Bureau simply vary from those expected of most governmental agencies. It is interesting to note, for example, that the three orientations-to-action on which the bureau respondents vary from the usual social norms affecting administrative organizations *vary in the direction of the role-expectations surrounding the role of the political partisan*.⁷

If one remembers that the Bureau of the Budget is a Presidential staff agency, then it becomes plausible to believe that the two examining divisions interviewed here (and quite probably the other divisions as well) are constrained to adopt partisan orientations⁸ Once it is accepted that the bureau must act as a partisan along some dimensions, then the divergence between administrative role-expectations and that segment of decision-making behavior examined here becomes understandable. While administrative agencies are expected to limit their involvements to a restricted aspect of a social object, the Budget Bureau is, above all else, engaged in developing advice and strategies on problems and policies with the broadest sort of political consequences. Given the President's potential stake in virtually every aspect of agency life, it becomes reasonable to believe that, as a Presidential staff arm, the Bureau of the Budget does, in fact, approach its mission with a functionally diffuse orientation.

Just as the respondents, as partisans, evaluated their agencies' operations and proposals diffusely, so do they evaluate them affectively. The conventional neutral code of the administrative community must often be transcended by the political requirements of the Presidency; that is, the emo-

⁶ It will be recalled that role-expectations do not consist merely of the orientations to action held by those external to the act, but include the orientations of the actor as well. See *Toward a General Theory of Action*, *op. cit.*, pp. 156-58.

⁷ Mitchell, *op. cit.*, p. 216.

⁸ In this connection, it is widely believed in the Budget Bureau that Eisenhower was so convinced of the bureau's partisan allegiance to the previous administration that he refused to utilize the bureau as a useful instrument of policy. If such was in fact Eisenhower's attitude, he misunderstood both his needs and the bureau's, since it is only through lending the White House effective assistance that the bureau can retain its influence. The same dependency, to a very large extent, exists for the President.

tional basis of politics often requires the President's management staff to seize immediate political advantages.

With respect to the particularistic *vs.* universalistic dilemma, the role-expectations of public administrators are again not apparent in the reported evaluative acts of the bureau respondents. The sixty or so federal agencies, in one sense, are similar objects of the same class and are treated as such for certain purposes. Similar reporting requirements are imposed upon all agencies, and similar directives are often issued to them all. Universalistic compliance with, for example, the premises upon which the President and his advisers wish agency budgets to be based (*e.g.*, manpower utilization programs, financial reporting, government-wide promotion policies) is expected by the bureau regardless of agency size or mission. On many questions of policy, however, it is impossible to apply universalistic evaluative standards. An agency's mission often bears a unique importance to the political position of the administration, and these peculiar (*i.e.*, particularistic) relationships must be reflected in the actions of the President's staff agencies.

Among the Budget Bureau respondents, we observed major agreement with respect to their general orientations as agency evaluators: they tended to be diffuse, affective, particularistic, collectivity-oriented, and achievement-oriented. When the respondents were compared with respect to the variables of divisional membership, length of service in the Bureau of the Budget, and formal organizational status, no significant variations in their orientations were detected. We tentatively conclude that the unique relationship that the respondents had with the President compels them, in many circumstances, to adopt partisan, rather than administrative, orientations toward the agencies.

The frequent partisan basis upon which the Bureau of the Budget's respondents evaluated the agencies explains, in part, the ubiquitous conflict that obtains between the Budget Bureau and the administrative agencies.⁹ Agencies that benefit, in the short run, from the demands of Presidential politics may, in the long run, be thrust back to administrative obscurity. Perennial uncertainty heightens agency suspicion of the Budget Bureau and gives rise to essentially insolvable conflicts: the agencies demand certainty, assurance, and predictability. The Budget Bureau, however, must respond to the quite different needs of the Presidency, needs that shift and change with the tides of national politics.

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⁹ Aaron Wildavsky, *The Politics of the Budgetary Process* (Boston: Little, Brown, and Company, 1964).

The Latin American Way of Life, I: *A Culturally Diverse Continent—Balkanized*

By RAYMOND E. CRIST

Introduction

MOST PEOPLE in the world are inclined to feel that theirs is the only society in which the good life can be abundantly lived. For many reasons this feeling is very strong among Anglo-Saxons. We tend to feel that other cultures are not only different from ours, but that many, or even all, of the beliefs that men in cultures other than ours live by are wrong. Yet rules established by each society for its members must have had validity, hence survival value, or the society simply would not be in existence today. For divers reasons, many societies have disappeared. The members living in those societies that have survived have, by and large, enough of a sense of fulfillment to wish to continue to live within the framework of rules evolved over the millenniums; the advantages of living together under these rules form the cement that holds the society together. The great French ethnologist, Levi-Strauss, writes: "No society is fundamentally bad; all offer their members certain advantages." This is a lesson we all should learn.

In our shrinking world technology is hastening the process of cultural homogenization, but that merely means that more cultures are in conflict at more points than ever before. It is hoped in this short essay to show some of the advantages and attractions in Latin American culture, for acculturation is a two-way street. Members of societies that are a going concern do not want violent change. As our technology enters the Latin American culture area, perhaps we will perceive, welcome, and then copy some of the values that have made life worthwhile for those who have lived and are living according to Latin American norms.

Race Mixture and Cultural Accretion

DURING THE four and a half centuries since the arrival of the Spanish and Portuguese conquerors and explorers in the New World the Latin American way of life has been evolved. These European adventurers hailed from the Iberian Peninsula, which had in the course of two millenniums received successive waves of immigrants: Phoenicians, Carthaginians, Romans, Visigoths and Moors. Certain features of the cultural equipment of each of these invading groups became part of the common heritage, but the cultural stamp of the Romans and of the Moors was more deeply impressed upon the inhabitants than that of any of the other invaders.

The Romans superimposed their language, their religion, and their law upon the inhabitants of the Peninsula. Later the Moors brought with them another language, from which the Romanized people borrowed hundreds of words. They also showed the others new techniques in irrigation and dry farming and in a few centuries evolved a brilliant culture. They introduced such significant crops as sugar cane, cotton, alfalfa, and rice into Spain. Their live-and-let-live attitude, their efficiency in agriculture and their preoccupation with the peaceful arts, made feasible the coalition against them and contributed to their eventual downfall.

But during the eight hundred years that the Moors were in the Iberian Peninsula there was more peaceful intercourse than hostile aggression. They were the overlords who lived in the castles and who were the social superiors in the land, and for centuries it was an honor to the Spanish or to the Portuguese to be socially acceptable to these dark-skinned conquerors. The Moors were as fanatical in questions of dogma as the Spaniards, but they did not have race prejudices, and they imposed this attitude of racial tolerance, a fundamental Moslem tenet, pretty generally on the Iberians.

Just as the victorious Spanish had triumphed over the Moors and were looking for new worlds to conquer, Columbus did in very truth discover a New World—a New World in which there were indigenous societies in various stages of evolution. Many of the members of the primitive groups were killed in battle, or they succumbed to diseases to which they had no immunity, to famine or to overwork. But many others, by intermarriage with their overlords, were instrumental in forming the mestizo, a prominent and powerful element in present-day Latin American society. It was very fortunate for the indigenous peoples of the New World that racial tolerance was a part of the cultural equipment of their conquerors who had no inhibitions about mixing their blood with that of the people they found in the new lands or the Negroes they soon introduced to do the work. The more highly evolved Indian societies were subdued by the Spaniards to the extent of becoming exploitable in the interest of their conquerors. However, millions of their members have retained to this day their own language, their own dress, their own methods of agriculture and handicrafts, and their own religion, which is but thinly veneered with Catholicism. It is the mestizo, speaking Spanish or Portuguese, who becomes the buffer between the Indian and those members of Indo-Iberian society who are imbued with most of the elements of Iberian nonmaterial culture.

Another ethnic contribution to the Latin American cultural composite was made by the Negro, imported from his native land in response to the insatiable demand for labor created by the rapid development of the sugar

industry. The Spanish and Portuguese planters in tropical America discovered that one Negro slave could be made to do as much as four Indians, and as a result millions of slaves were imported from Africa in the course of some three hundred years. Their splendid physiques, their capacity for hard work under a tropical sun, and their relative immunity to yellow fever were of inestimable material value in the development of the colonies. Culturally the slaves were a jumbled lot, grading from primitive savages to representatives of tribes with complex economic and social organizations. When they went through the process of acculturation, they naturally influenced the culture of their masters. In art, in rhythm, in song, in crafts, the culture of Africa continues to make itself seen and felt and heard in present-day tropical Latin America.

As an example of what the attitude of the conquerors and its acceptance by the conquered has led to, Brazil can be cited. Brazil has for generations had an official attitude of tolerance for all races and peoples. This is inculcated through educational policy. From the time a child starts learning to read he has textbooks in which it is brought home to him that his ancestors were Indians, Whites, and Negroes. Thus at a tender age his mind and emotions are molded in such a way that race prejudice can never take root. The demand for tolerance was shown during the early part of World War II when the German Embassy in Rio was picketed because it had run an advertisement in the newspapers for secretaries, with the proviso that only Aryan secretaries need apply. That was too much for the Brazilian populace, otherwise so gay and peace-loving, to accept. Toleration of race prejudice could not be tolerated!

Compartmentalized Physical Geography

THE PHYSICAL GEOGRAPHY of Latin America is broken up into numerous compartments. Extensive plains and narrow mountain valleys are isolated from each other by high mountain ranges, hazardous and expensive to cross. Ribbon oases border the streams in the deserts, with completely sterile, uninhabitable stretches in between. Tropical rain forests have remained almost impenetrable to the present day. Lofty, densely populated plateaus have only slightly more contact now with the outside world than they had at the time of the Conquest. Possibly there is less inter-valley commercial intercourse. The tendency has been for the various physical compartments—great and small—to remain sufficient unto themselves in the manner of the village districts in Europe during the Middle Ages. Self-sufficiency and its corollary, a low standard of living, have been the rule. In other words, the whole cultural area is today to a large extent "Balkanized,"

geographically and politically, and the economy is a reflection of that state of affairs.

For centuries there was little interest in building roads and railroads across the deserts and mountains and through the tropical rain forests to connect the various regions and political units. The great landed families were largely interested in cattle raising, and beef steers walked to market over the poorest of trails. Hence the expensive undertaking of road building was rarely even contemplated by the wealthy aristocrats. Roads and railroads were built, largely by outside interests, to tap the mineral deposits. But the mineral-rich areas, as well as the sugar islands and the banana republics, have been tied to extra-regional economies. Their trade was colonial, with economic mother countries beyond the seas. The foreign exchange entering Latin America, to pay for the raw materials, for the oil, or for the metals, lodged in a few hands. A fairly well-to-do middle class existed only in embryo, and mass purchasing power did not come into being. Hence factors basic to the development of interregional and international trade were absent. However, during the past few decades the building of auto roads has greatly accelerated the intranational movement of goods and services, and contacts between regions are being effected by the airplane at an ever increasing speed. But the great mass of Latin Americans are still untouched by these innovations. Many during their lifetimes travel no more than the few miles to the local market—often on foot—where each week they sell their produce for the cash with which to buy a few necessities, meanwhile taking occasion to exchange gossip with neighbors and friends.

Widely Dispersed, Self-sufficient Agriculturalists

AGRICULTURE IS THE LIVELIHOOD of the great majority of the Latin Americans. Usually it is of the small patch, self-sufficient, migratory type. The man with the hoe, a species almost extinct in more advanced countries, still exists in Latin America by the million. Of course the "hoe" he carries is a machete, the big broad cutlass resembling an outsize butcher knife. With the machete he fells the trees and clears the underbrush on a small plot in the forest or bush, usually less than an acre in extent. He burns the trees at the end of the dry season and plants his crops, usually corn, beans, and pumpkins, among the charred logs and stumps in the soil enriched by the wood ash. On such small plots sizable marketable surpluses are rare. Most of this produce is consumed in a small one-room thatched hut by the farmer and his family, who are barely incorporated into the national economy.

Widely disseminated, self-sufficient patch agriculturalists have never formed a firm foundation upon which an outstanding civilization or an advanced culture could flourish. They are sometimes national liabilities rather than assets, since by the very nature of their activities they often destroy the native vegetation and much of the fertile topsoil over hundreds of thousands of square miles. Yet slash-and-burn agriculture is the economic basis for millions of people in the vast hinterlands of the several Latin American republics. The one distinct advantage enjoyed by the patch agriculturalists, isolated from each other and from the main economic and cultural currents of national life, is freedom. In contrast, workers on the semi-feudal cattle ranches of Venezuela or on the *fincas* of some sectors of the Andean altiplano are tied to their jobs by centuries-old custom or even by actual force. Those on the modern streamlined sugar plantations, whether in Peru or in Puerto Rico, are largely landless workers, almost completely dependent on the salary earned during the six-month season when cane is cut and ground.

Paucity of Urban Agglomerations

BOTH PHYSICAL AND HISTORICAL FACTORS have given Latin America an emphatically rural character and flavor. Thus special techniques have been evolved which enable the widely dispersed rural dwellers to enjoy a certain amount of social intercourse. In Brazil there are communities called "Sunday towns." On Sunday, the big day, all those within a wide radius who can possibly do so travel there on foot, on mule, on burro back, or by oxcart. The market flourishes. The older men sit around in primitively equipped cafés and bars, drinking strong coffee or spirits, as they quietly discuss crops and politics. The younger men frequently engage in feats of horsemanship up and down the main street. The women visit with each other and pass on the latest gossip as they stand around in little clusters. The young men and women cast soft glances at the opposite sex or even exchange a few words. But by Sunday night the town is deserted. The houses are closed for the week. On Monday morning even the stragglers have left for the trek home. The word *endomingado* (literally, Sundayed) is used in Spanish-speaking countries to mean all dressed up.

In the Andean countries there are "concourse towns." Indians flock to them from distances of more than a hundred miles for the great annual fairs which last for a week or more. During these fairs the people get some of the social intercourse for which they are starved most of the year. Their lives are relieved temporarily of their dramaless monotony and they achieve a sense of at-oneness with their fellows. Even those who live in the villages

and smaller towns have relatively little contact with the rest of the country. The major social function they participate in is the stroll around the main square on Sunday evenings, the men in one direction, the women in the other—while members of each group critically appraise the individuals in the other.

Unlike Anglo-Saxons, Latins still prefer the center of town as the most desirable location for a home. Young ladies sit behind the barred windows of their town mansions, to see and to be seen. Here they gossip with friends and are courted by their suitors. People prefer to live on streets without shade trees because they can see everything that goes on. House values are higher on streets where no trees obstruct the view. As passive entertainment, movies have been popular from the beginning. At the old silent films in the hinterlands the audience was made up of little groups, clustered around a few literate people who read the subtitles aloud in a low voice. With the coming of the talkies the illiterate can enjoy them without intermediaries and this form of entertainment has rapidly won a great following.

Physical Barriers a Handicap to Cultural Exchange

PHYSICAL BARRIERS have been a powerful influence in keeping cultural interchange among the Ibero-American republics at a minimum. Everyone who has worked in Latin America is familiar with the difficulty in obtaining books or articles on the country he is studying. Beyond the confines of the country in which a work is published one may find it almost impossible to get a copy of the book at any time. For instance, a book on Ecuador, if published in Colombia, will be hard to come by in Ecuador itself. A newly published volume may be readily obtainable in the country where it was published shortly after the date of publication, but editions are small, hence quickly exhausted. The local reading public is not large. There is no short term for "best seller" in Spanish or in Portuguese. Once an edition is sold out a copy can hardly be bought, because books are acquired by the tiny group of intellectual elite who form valuable private libraries. Of course, the student who comes with proper letters of introduction will find the owners of these private libraries extremely hospitable. They willingly throw open their library doors to him for as long as he is in town. But he will rarely be able to obtain by purchase in a bookstore many of the volumes he would like to add to his own collection. Clerks in bookstores use the expression *se agotó* (it is out of print) probably more than any other.

It is against this heterogeneous physical background that Indians, whites, and Negroes have pooled their respective accumulations of cultural equip-

ment. Each race has been culturally active at the same time that it has been acted upon. The elements of the various cultures have fused into a new and independent cultural reality, which develops its own creative forces. Out of the mixture of peoples, races and cultures, an underlying unity, a substantial civilization, an authentic Latin American way of life has evolved. Wherever Iberians have implanted their culture they have left indelible traces. The outstanding features are recognized immediately by even the casual traveler, and they are extremely difficult to erase. Although Anglo-Saxons in human tidal waves have on occasion overwhelmed the northern frontiers of Iberian culture, the peoples, once imbued with it, have continued to retain their (Iberian) cultural physiognomy and many features of Iberian material culture.

The states of southwestern United States for instance, which were once effectively occupied and acculturated by the Spaniards, though forcibly joined to the Anglo-Saxon political group, have never been entirely weaned from their specific way of life. They still retain many cultural features that reflect their Latin origin. Latin American culture has merely been diluted, not obliterated.

The Caribbean Basin, Mediterranean of the New World, has been the scene of the struggle for survival of Latin American culture vis-à-vis the Anglo-Saxon. The tenacity which the former has shown in maintaining itself spiritually intact in the face of great material odds is typical of its basic, inherent, and unconquerable strength. The Anglo-Saxons have attempted to form an enclave in the Latin American world in Puerto Rico where the Latin American way of life, though disturbed, has remained intact. It is, as we shall see, the *cultural* values that have proved their cohesive strength in Latin America, an area of great physical diversity.

The Pilgrim Fathers and the Conquistadores came from the same continent and were not so unlike as we may have been led to believe. Both were fanatics. The former, Protestants of various sects, were ready and willing to burn and hang those who disagreed with them on religious matters. The latter, ardent Catholics, had a tradition of eight hundred years of fighting the infidels, the Moors.

Our grade-school history books to the contrary the general attitude of the Pilgrims Fathers toward the Indians is expressed in the dictum that a good Indian is a dead Indian. To the Conquistador, on the other hand, the good Indian was first, last and all the time a slave. To be sure, he often killed Indians, but only "bad" Indians who revolted against working at all or who were tired of working. The Conquistador killed the Inca and Aztec overlords, as he killed the Moors or as he would have killed a neighboring

Spanish baron. But he did not hesitate to beget children by the Indian women. He did not know *race* prejudice, for he had been conditioned by his long association with the Moors.

One of the outstanding achievements of Islam has been the complete extinction of race consciousness between Moslems. During the long stay of the Moors in Spain—also in Languedoc and parts of Italy—the subject peoples assumed the attitudes of their conquerors. The result was that when the Iberians in turn began their empire building they were not encumbered with any trace of race consciousness. It cannot be denied that everywhere they went they proved themselves “good mixers.”

Indians perished from overwork, from malnutrition, and from diseases to which they had no acquired immunities. But the Indian women were from the beginning always *personas gratas* to the overlords. One of the first and most important results of the meeting of the races was a crop of brown babies. They were wholeheartedly recognized by their male parents and, after baptism, were admitted into the fold of the church. In those areas where the Iberians resorted to large-scale importation of manpower from Africa race mixture ensued, without the development of that paralyzing institution which, in full flower in India, is known under the name of “caste.”

The Spiritual Goal of the Encomienda System

THE ENTIRE *encomienda* SYSTEM was based on the interest of the Church and the Crown in the spiritual welfare of the Indian and of his heirs, whether pureblood or mestizos. In the titles or documents which each Spaniard conqueror held to prove his claim to his allotment of land was the following clause:

Se os encomiendan (aquí el numero) indios para que los doctrineis en las cosas de nuestra santa fe. [So and so many Indians are commended to you, that you indoctrinate them with our holy faith.]

The Conquistador looked upon all those who were not good Catholics—Moors and Lutherans—as enemies of Spain. Christian to them meant Catholic. *Hablar Cristiano* is the expression used to mean “to speak Spanish.” The Spaniards believed themselves to be a chosen people, with a mission to spread the truth and to bring light into the dark places of the earth. They felt that they had a civilizing mission. They were convinced of their own fitness to regulate the lives of other people. They would stop at nothing to enforce the truth as they conceived it—for the glory of God, to be sure, and for what in the event proved to be for the benefit of the conquerors. Naturally they did not overlook their own interest. Those

whom they indoctrinated were also a potential labor force and were so used.

It must ever be held in mind that the Iberians came out to the New World without women and that they had no Puritanical ideas about mixing their blood with that of the native Indian women.¹ Being of the Don Juan tradition and finding themselves vis-à-vis a rather passive race, each Spaniard could and did go far in spreading white genes in the New World. A scarcity of European women prevailed all during the colonial period. Living conditions were primitive in the New World and Europeans left their womenfolk at home in the Old. On their estates and in their town houses the Iberians had almost unlimited power over the actions and even the persons of the Indians living there. The Indian women in many cases formed a kind of seraglio for the private use of the great landlords, who exercised their seigniorial rights over the most attractive when they became nubile, regardless of what the parents might say. Even the first viceroys, the alter egos of the King and the supreme powers in the New World, were not allowed to bring their wives. The eighth viceroy of Peru, García Hurtado de Mendoza, Marques de Canente, was the first viceroy who was allowed to bring his wife to Peru with him. He arrived in Lima in 1590, two generations after the Conquest.

But the Crown and the Church both were interested in regular relationships and in legitimate children. Philip II felt that the condition of bachelorhood of those living around Lima was in no small part responsible for the turbulence of the country. Accordingly he sent out a royal decree to the effect that all adult males abandon celibacy within thirty days, upon pain of losing their properties. Those not already engaged would accept as wife one of the Indian women of noble blood, to be selected by the Audiencia.

Thus [so read the document] all odor of concubinage will disappear, public morality will profit, and turbulent spirits will be tamed; for wheat is cleaned by the wind and vices [are purged away by] chastisement.

It was further decreed that all rich widows should remarry, no excuses being held valid. The lucky husbands were to be chosen from among those Spaniards who had been most energetic in reestablishing order after the revolution against Pizarro. Thus the King hoped to reward his subjects with wealthy wives and at the same time check further rebellion.

¹ Pizarro himself, Conqueror of Peru, had a son by Doña Angelina, the daughter of the ill-fated Inca Atahualpa. This child, baptized and given the name of Francisco, died before reaching the age of fifteen. By Doña Ines Huaylas or Yupanqui, the daughter of Manco-Capac, Pizarro had a daughter, Doña Francisca. Both the children were by royal decree declared legitimate although their father had never contracted matrimony with either Doña Angelina or Doña Ines. The daughter, Francisca, married her uncle Hernando, about three times her age, and stayed with him, during the long years of his imprisonment until he died. Her second husband was Pedro Arias. A grandson of this union received in 1628 from his king the title of Marques de la Conquista.

The Mestizos, a Class on the Make

IN THOSE SECTORS where the mass of Indians was so great as not to be easily assimilable, a new group, the mestizos, evolved. Since they were, so to speak, on the make and wanted to achieve the status, if possible, of the Spaniards, they were frequently not the agents of transculturation which they should have been or under favorable circumstances could have been. Witness this quotation from the great Peruvian writer Ricardo Palma:

When the Spaniards came to Peru the mountain at the foot of which Arequipa was founded did not have a name. . . . The mestizos, almost always the fruit of the union of an Indian woman with a Spaniard, were generally hated by the natives of the country, and the mestizos in turn, when they achieved office [alcanzaban algun mando o un cacho de influencia en la cosa publica] or a degree of influence in public affairs, were more arrogant and cruel toward the Indians than were the Spanish themselves, to the extent that Rome declared (por breve del Pope Paul III) the 10th of June 1537, that the American Indians were not beasts of burdens, but rational beings worthy of receiving the sacraments.

From this hatred between the races undoubtedly came the saying: Mestizo educado, diablo encarnado. [An educated mestizo, the devil incarnate . . .] It was more than a half century after the Conquest before the Arequipanos christened their volcano with the name of Misti [the Mestizo], "No la vean mis choznos, dicen las viejas."²

The economy developed in the New World by the Spanish Crown was based on three fundamental concepts. Primarily, the colonies were a domain reserved for the exclusive exploitation by subjects of the Crown of Castile. Only in 1598 were non-Castilian Spaniards legally admitted, but this did not apply to foreigners. The result was that throughout the entire colonial epoch a few million Spanish and Portuguese at most—a mere handful in contrast to the many millions of Indians and Negroes—lived or settled in the vast New World empires.

Secondly, the colonies were to complement the mother country, that is, no crops could be grown or goods produced in the colonies which were already grown or produced in the mother country. This could not but fix a low and permanent ceiling on economic development in the colonies. As a result of this strait jacket both manufacturing and agriculture languished. The situation in regard to the introduction of the wine grape in Honduras is commented upon by Squier in the following words:

The narrow colonial system of Spain had the effect to keep many of her American possessions, and especially Central America, entirely excluded from intercourse with the rest of the world. None of the improvements in the arts or in agriculture, which elsewhere were effecting gradual but total

² Ricardo Palma, *Tradiciones Peruanas* (Madrid: Espana-Calpe, S.A., 1930), Vol. III, p. 52. [The old folks say their grandchildren won't see it.]

revolutions in the industry of nations, were permitted to reach that country. Trade was monopolized by the Crown, which equally undertook to regulate the amount of production of the various articles for which these colonies were distinguished. A single example will illustrate the extent to which this jealous and oppressive policy was carried. Early in the eighteenth century, the cultivation of the grape had been introduced upon the northern coast of Honduras with so much success and promise as to attract the attention of the government of Spain, and lead it to fear that the colony might ultimately come to rival the mother country in the production of wine. Orders were consequently issued to the officers of the Crown to destroy the vines, which orders were carried into execution. Since that period no further attempts have been made to introduce the grape, but no doubt exists of the fact that it might be produced in the greatest abundance, and become an element of wealth to the State.³

Thirdly, the main emphasis in economic development in the New World was placed on mining, because precious metals were not merely a symbol of wealth, they were themselves considered to be wealth. This was the era of the mercantile theory in Europe. The policy of the rulers of Spain could only be to do everything in their power to explore for mines, to exploit those already found, and to see that the minerals discovered and mined in their New World colonies remained in the hands of the Spanish Crown. To this end subsurface rights were vested in the Crown and, upon the end of the Spanish power in the colonies, subsurface rights were vested in the national governments. The restraints upon trade—intercolonial as well as international—and the high and mighty attitude of the Spanish administrators vis-à-vis those living in the colonies were heavy crosses for the Creoles to bear. But Peninsular stubbornness and stupidity in blindly following mercantilism ad absurdum was a big factor in the inevitable revolt of the mainland colonies. The same was true of the original English colonies in North America.

The Latin American as Farmer

LATIN AMERICA was settled in large part by Iberians who did not like to farm but who had farming thrust upon them because they had to eat. Hence agriculture is dichotomous throughout the entire cultural area. On the one hand there is the man with machete, whose farming practices are not far removed from those of Neolithic man. He is a small-scale semi-nomadic subsistence farmer, living a hand-to-mouth existence, having little contact with the world market or even with the economy of his own region. Originally the ancestors of the small farmers were forced back into the steeper, less fertile areas by a few powerful individuals who took up most

³ E. G. Squier, *Notes on Central America* (New York: Harper and Brothers, 1855), pp. 231-2.

of the best land for their cattle ranches or great landed estates where they produced commercial crops. These small-plot agriculturists were never able to accumulate capital and they remained untouched by modern techniques. They continue in their traditional pattern of land use, appreciating little more than a swarm of locusts what their activities will lead to in terms of loss of timber, rapid runoff of rainfall, erosion, and so on.

These farmers have nothing in common with the peasants of Europe or Asia where it was the garden, the same small plot of land intensively and lovingly tilled inch by inch, year in year out, that imperiously demanded the sedentary life. There man had impressed on him how dependent he was upon the soil. He became attached to the piece of land his forefathers worked before him. And generation after generation he acquired a reverence for the land. This has not been generally true in Latin America. The tendency has been for the small farmer to cultivate a plot by primitive methods and for two or three years at most. The cycle is short. During the dry months of the year the farmer cuts the trees and brush of a given plot of ground which desiccate and become as dry as tinder. According to immemorial usage, this brush is burned off toward the end of the dry season. The soil is temporarily enriched with the oxides of potassium, calcium, phosphorus, and other minerals in the ashes left by the burnings. But organic matter is destroyed. The formation of humus is impossible and the plots are prey to water erosion effected by the tropical downpours. Heavy leaching takes place. Insect and animal populations build up. The soils become deficient in nitrogen. Within two or three years yields are so low as to make necessary the clearing of new plots and thus the cycle continues.

The first Indians encountered by the Iberians were the Arawaks and the Caribs. The former were a peaceful people interested in hunting and fishing, in gathering wild fruits and berries, and in cultivating small plots or patches cleared of trees. The latter were for the most part a fierce, warlike people who were relatively soon killed off. Those engaged in the peaceful pursuits of the hunter and fisher and patch agriculturist had all—or a goodly part of their catch and their crops requisitioned by the invaders. They were further pressed into service washing gold from the sands of the rivers. Many survived the arduous labors, the lack of proper food, and even the diseases, such as measles and smallpox, to which they had no immunity. But those who could do so fled to the steeper, wilder, less accessible parts of the islands and the mainland. Many of them were accompanied by their families and friends who perhaps felt that discretion was the better part of valor.

People from the same village or the same region frequently got together in founding a new settlement, giving it the same name as the old one. Thus a village in the lowlands is called Vega Baja, one in the mountains is called Vega Alta. Another lowland village, Toa Baja corresponds to a mountain village, Toa Alta, and so on. Here they continued their seminomadic agriculture on the tiny plots of cleared forest land, known as *conucos* in the islands, as *milpas* in Central America, and as *rozas* or *chacras* in the various other countries.

These nomadic patch agriculturists should not be confused with the village or community Indians of the high mountains, valleys, and plateaus of Mexico, Central America, and Andean America. The Indian communities have preserved their way of life in the face of great disasters, acts of God, acts of men: drought, flood, hail, plant disease, the greediness of the large landholders and the lack of understanding on the part of the central government. In spite of these calamities the Indian communities continue as a vital force.

The vitality of the Indian communities is the result of a certain attitude toward life and work, which is reminiscent of the peasants of parts of Europe and Asia. The moral discipline of the community is the guiding force. The individuals believe in hard work, thrift and self-discipline. They are symbols of tradition and stability. They are not speculators and are in no hurry. Their ideal is to live on the land and from it, to bring up their children on it and to establish them there. That is all. The simple life. But it has grandeur none the less.

One can make a living but not grow rich. Agriculture is a mode of life but not a means of making a fortune. They have the instinct for time, the safeguard of the peasant, for whom the benefit to which he looks forward does not appear on a balance sheet. His profit is his realization that he will survive in his children who will be grateful for being guided by his way of life which they in turn will follow. Like the god of Greek mythology, he has to keep touching the earth to remain strong enough to survive.

Large families are the rule and ambition is restricted to modest proportions. Such asceticism is the negation of modernity, but thus far the Indians have thrust their roots so deeply into the soil that they cannot be uprooted. However, what has been impossible by the use of force may be achieved in another way. The big cities are beckoning them, lie in wait to seize them and make them at home in a new and noisy and scintillating environment. Once the proletariat has been completely severed from the soil and transplanted to an urban setting it will lack those reserves of spiritual nourishment which formerly provided the bulwark against absorption into nation

states. Urban values will triumph. The process of race mixture will be accelerated. The Indians will become citizens of modern national states, Bolivians, Peruvians, Mexicans, Guatemalans, Nicaraguans and Colombians.

In contrast to subsistence agriculturalists and community Indians—who often have no titles at all, or very insecure titles, to their land—are the powerful cattle ranchers and great landlords. Their titles go back to royal or early republican land grants. The large landholders may not necessarily always be the *de jure* owners of all the land they claim, but they are powerful enough to exert *de facto* control over it. Often their influence is felt well beyond their landholdings. What is greatly needed in all of Latin America is a modern cadastral survey.

(Continued)

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Foreign Direct Investment in Italy, 1956-1963: *Some Developmental Aspects**

By PETER V. MINI

ON FEBRUARY 7, 1956, the Italian Parliament passed legislation which removed practically all restrictions on the inflow and repatriation of foreign private direct investment.¹ The hope that this law would encourage foreign capital formation in Italy appears to have been fulfilled; both foreign and Italian scholars in recent years have credited it with causing foreign entrepreneurial capital to flow to Italy.² This paper will examine certain aspects of such foreign private investment and will evaluate its contribution to the solution of Italy's main economic problems.

I

TABLE 1 SHOWS that the annual flow of gross foreign private investment—negligible in 1955³—increased rapidly, though unevenly, during 1956-1963:

Table 1—Gross foreign private direct investment in Italy, 1956-63
(in millions of dollars)

Year	1956	1957	1958	1959	1960	1961	1962	1963
Volume	17.8	35.8	35.3	25.1	56.1	65.6	45.8	59.4

SOURCES: 1956-57: Centro Investimenti Esteri e Sviluppo Economico, *Foreign Private Capital Investments in Italy from 1948 to 1958* (Rome, 1960), Table xviii; 1958-63: Istituto Nazionale per il Commercio Estero, *Informazioni Commercio Estero* (Feb. 6, 1964), p. 366.

* This article is based on the author's unpublished dissertation, "Foreign Long-Term Private Investment in Italy, 1956-1961: Its Causes and Contributions to Italy's Economic Growth," Department of Economics, Tulane University, 1965. The author wishes to express his gratitude to Professor Seymour S. Goodman of Tulane University for his generous assistance in completing the dissertation and in preparing this article.

¹ A detailed presentation of this law can be found in *A Guide for Foreign Investors in Italy*, Banca Nazionale del Lavoro (Rome, 1962; 2nd ed.), pp. 29-39.

² See, among others, Karel Holbik, *Italy in International Cooperation: The Achievements of Her Liberal Economic Policies* (Padua: CEDAM, 1961), p. 136; Vera Lutz, *Italy: A Study in Economic Development* (London: Oxford University Press, 1962), p. 325, n. 13; and Saverio Ilardi, "Investment of Foreign Capital in Italy," *Banco di Roma, Review of the Economic Conditions in Italy*, Vol. X (May, 1956), p. 228.

³ On December 31, 1955, the total stock of investment which was later brought within the legal regulations of the February, 1956, law was \$119,000. Centro Investimenti Esteri e Sviluppo Economico, *Foreign Private Investments in Italy from 1948 to 1958* (Rome, 1960), p. 3.

By the end of 1963 foreigners had invested in Italy a total of \$340.9 million under the February, 1956, law. From the beginning this capital inflow showed a marked tendency to be distributed very unevenly among the Italian regions (see Table 2). During 1956-63 one region—Lombardy—received nearly 42 per cent of the foreign capital accruing to the whole country. Two regions—Lombardy and Latium—absorbed 58 per cent. In fact, Northern Italy, which contains about 63-65 per cent of the country's total population, was the recipient of four-fifths of the total investment. Only in 1962 did Southern Italy receive a share of foreign investment substantially greater than 20 per cent. This was largely the result of investment in Campania and Abruzzo.⁴

A few marked trends stand out. During the eight-year period examined, Piedmont, Emilia, Latium, and Campania showed ability to attract larger and larger fractions of the total foreign investment outlays. Lombardy and Sicily, on the other hand, which in 1956-58 received 62 per cent of the total, lost ground progressively *vis-à-vis* the other regions. By 1963 they were receiving somewhat less than 29 per cent of the total.

Before analyzing the factors responsible for this lopsided distribution of foreign investment among the Italian regions, it is advantageous to examine briefly the distribution of foreign capital by sectors of economic activity. These data are presented in Table 3.

Nearly two-thirds of the total direct investment made by foreigners between 1956 and 1963 was concentrated in three industries: the chemical-pharmaceutical, the petroleum, and the metallurgical-mechanical. The first two, however, became relatively less important with the passage of time. Thus we note that while in 1956-58 these two industries received 69 per cent of the total, by 1963 their share was down to about 34 per cent. On the other hand, sectors that attracted practically no foreign capital in 1956-58 were among the largest beneficiaries of the later flow of investment: in 1963 the electrical-electronic, paper-making, and food-processing industries received 44.5 per cent *in toto*.

If the capital outlays shown in the table are grouped under the two headings of resource-oriented (petroleum and mining) and manufacturing-oriented (all the others), we note that the proportion of resource-oriented capital fell rapidly after 1956-58. It reached the low point of 7.7 per cent in 1962, recovering somewhat in 1963.

⁴ In agreement with the planning and policy activities of the Italian government, Southern Italy (Mezzogiorno) includes not only the five regions of Table 2, but also Calabria and Basilicata, where, evidently, no foreign capital went.

II

DATA ON THE TYPE of foreign capital (construction, chemical, etc.) which each region received can be derived from statistics presented by the Centro Investimenti Esteri e Sviluppo Economico (CIESE) for the period January, 1956, to July, 1959, only.⁵ They show that manufacturing-oriented foreign capital was very heavily located in the North. For example, in sectors like shipbuilding, construction, and food-processing, 100 per cent of the investment was in one or two Northern regions. In the chemical-pharmaceutical and the metallurgical-mechanical industries, respectively, 97.3 per cent and 96 per cent of foreign capital was invested in the North. Only in the petroleum sector was a large percentage (66.4 per cent) of the foreign investment in the South, almost wholly in Sicily, where it represented 93 per cent of the total foreign investment received.

Although the 1960-63 statistics do not give this distribution of foreign investment cross-classified by region and economic sector, it is reasonable to suppose that the same broad locational characteristics of foreign capital prevailed and that its drying up or increase in certain economic sectors led to the relative loss or gain of capital in the various regions. For instance, since petroleum investment was almost entirely responsible for the \$18.62 million that Sicily received in 1956-58 (Table 2), one can infer that the rapid decline in the volume of foreign capital formation in Sicily after 1958 was caused by the fall in foreign petroleum outlays, shown in Table 3.

By the same token, CIESE data indicate that 94.1 per cent of the foreign investment attracted by Liguria in January 1956-July 1959 went into shipbuilding. The fall of foreign investment in that sector (Table 3) accounts, therefore, for Liguria's declining share of foreign investment—at least until 1962 (Table 2).⁶ Causes of *increased* foreign investment in one region cannot be so easily inferred, since such increases may be caused either by growth of the foreign industries which existed in 1956-July 1959 or by the establishment of *new* firms. Liguria, for instance, after having experienced a setback in foreign investment in shipbuilding, received \$5.12 million in 1963 in new, unidentified sectors. Campania, which in the first two and one-half years received 72.2 per cent of its foreign capital in the "miscellaneous" sector, might have continued to benefit from growth of this cluster of industries (rubber, paper-making,

⁵ CIESE, *op. cit.*, Appendix, Table XXV (no page number given).

⁶ This inference is confirmed by the fact that "Shipbuilding production [for all of Italy] attained a high index of 196.5 in 1958 (1953 = 100), but then fell off to 118.9 in 1961." Shepard B. Clough, *The Economic History of Modern Italy* (New York: Columbia University Press, 1964), p. 317.

tourism, etc.). But, conceivably, it might have received foreign capital in other sectors.

One important conclusion unmistakably emerges from this review: At the beginning of the period studied, the South received mainly resource-oriented capital, *i.e.*, petroleum investment. When oil was found to be ". . . of low grade and costly to extract,"⁷ this investment flow practically disappeared, causing the Southern share of foreign investment to fall to 12 per cent in 1959-61.

There are good reasons why foreign capital—especially that in manufacturing industries—tends to concentrate in the regions of Northern Italy. These regions are much closer than the Southern ones⁸ to the countries of Northwestern Europe, an area from which Italy obtains most of her imports,⁹ including raw materials, and to which it sells a large fraction of its exports.¹⁰ The relative nearness of the North to this dual market naturally tends to keep down transportation costs and, hence, total costs.

Conversely, locating manufacturing industries in the South means meeting higher c.i.f. prices for raw materials and higher transportation overheads for those commodities sold to European countries.

To an extent the South's locational disadvantage is compensated for by lower wages there as compared to those prevailing in the North. The collective labor contracts sanction differences in rates of pay for the same job and the same type of industry between one "zone" and another. However, on the basis of a Ministry of Labor investigation, it can be asserted that ". . . the difference in rates of pay as between North and South is not unduly large."¹¹ Specifically, the wage difference between Venetia (Northern Italy) and most of Apulia (Southern Italy) in 1961 was only 5 per cent, while there was *no* wage difference between chemical

⁷ Lutz, *op. cit.*, p. 140, n. 22; see also p. 270. The Ente Nazionale Idrocarburi (National Hydrocarburates Institute) confirms this opinion in *I Problemi dell' Energia e degli Idrocarburi* (Rome, 1961), p. 52.

⁸ The rail distance between Lombardy (Northern Italy) and Calabria (Southern Italy) is about 600 miles.

⁹ In 1962-63, for instance, imports from Northwestern Europe were 50 per cent of the total; imports from Spain, Greece, Cyprus, Turkey, Yugoslavia, and Malta—countries to which Southern Italy is nearer than Northern Italy—were 4 per cent of the total. North African countries must have sold to Italy only a fraction of the 20.6 per cent of total imports originating from "other underdeveloped countries." Banca d'Italia, *Relazione Annuale: 1963* (Rome, 1964), p. 166.

¹⁰ The countries of Northwestern Europe bought 56 per cent of Italy's exports in 1962-63. By contrast, the countries of the Mediterranean basin received about 8 per cent of Italy's total exports. Banca d'Italia, *op. cit.*, p. 166.

¹¹ Lutz, *Italy, op. cit.*, p. 231.

firms located in Emilia (Northern Italy) and those in the provinces of Naples and Palermo, Sicily.¹²

Moreover, the existence of wage differentials does not in itself guarantee lower wage costs per unit of output. Lower wages in the South may reflect, at least partly, a relatively lower labor productivity there. Although there are no comparative statistical data to prove this point, it is likely that the South's relatively low capital-labor ratio, the high degree of illiteracy there, and the relative paucity of social overhead capital result in a low productivity of labor.

Thus, wage considerations do not appear to annul the North's locational advantage in relation to its sources of supply and to the markets for its final products.¹³

Northern Italy's comparative advantage as a production site would exist even in the extreme hypothesis that all of the foreign firms' output is sold domestically, *i.e.*, in Italy. An index of non-food consumption suggests that, in 1962-64, the South as a whole spent only 22.36 per cent of Italy's total non-food outlays.¹⁴ This low consumption share is in agreement with figures of per capita incomes: in the same three-year periods, the South was the recipient of 23.86 per cent of the country's total income.¹⁵ In 1964, on a per capita basis, the incomes of Northerners were 81 per cent higher than those of their Southern compatriots.¹⁶ The higher incomes and expenditures of Northern Italy make this half of Italy a much better market than the South and justify the choice of a Northern industry location.

¹² Vera Lutz, "Some Structural Aspects of the Southern Problem: The Complementarity of 'Emigration' and Industrialization," Banca Nazionale del Lavoro *Quarterly Review* (December, 1967), p. 384. The author suggests that the over-all wage differential is, perhaps, about 10 per cent, which she judges to be "not large by the standards of other countries," p. 386.

¹³ There are no data on the disposition of output produced by foreign capital. However, the sectors into which foreign manufacturing investment flowed are also the sectors whose sales abroad expanded very rapidly. I have examined this relationship in Part II, Chapter II, of my dissertation, *op. cit.*

¹⁴ Guglielmo Tagliacarne, "I conti provinciali. Calcolo del reddito prodotto dal settore privato e dalla pubblica amministrazione e degli investimenti nelle provincie e regioni d'Italia nel 1964 e confronto con gli anni precedenti sino al 1951. Indici di alcuni consumi non alimentari e del risparmio bancario," Banca Nazionale del Lavoro *Moneta e Credito*, Vol. XVIII (1965), p. 312. Outlays on the following six non-food products are considered: tobacco, theater, electric power for home use, subscription to "Selections from Reader's Digest," automobiles and motorcycles, and radio and television annual tax payments.

¹⁵ *Ibid.*, p. 312.

¹⁶ *Ibid.*, p. 308. Significant per capita income differences exist among the Northern regions, and such differences may be responsible for the uneven distribution of foreign investment among Northern regions of similar size and population. Thus per capita incomes in Lombardy were 33 per cent higher than Tuscany's and 19 per cent higher than Emilia's—two regions that received substantially less foreign capital than Lombardy.

III

THE "SOUTHERN QUESTION," that is, the comparative poverty of the South,¹⁷ has been prominent in the work and policies of scholars and statesmen since at least the beginning of this century. However, it is only since the end of World War II that "... a really significant change in Italian attitudes toward the depressed South has taken place."¹⁸ This new national consciousness of the Southern problem found expression in innumerable government studies dealing with the South, in the setting up of an agency—the *Cassa per il Mezzogiorno* (Fund for Southern Development)—promoting its development, and in the pre-eminence given the South by Italy's most comprehensive economic plan, the Ten-Year Scheme for the Development of Employment and Income (Vanoni Plan) of 1955. Under the Vanoni Plan and the *Cassa*, policies designed to increase Southern per capita real incomes more rapidly than Northern ones were undertaken. Since "In the implementation of the Vanoni Plan a role of outstanding importance [was] attributed to international cooperation and the investment of private foreign capital,"¹⁹ we are justified in evaluating foreign private capital formation in Italy according to whether it accelerated or retarded achievement of a major objective of the plan: a less unequal per capita real income distribution between North and South by 1964. In other words, the contribution of foreign private direct investment to the solution of Italy's main economic problem can legitimately be evaluated on the basis of whether its basic characteristics, such as its sectoral and regional distribution, complement, or run counter to, government policies designed to solve the problem of the North-South economic split.

The Vanoni Plan and the *Cassa* intended to solve this problem by undertaking state investment and by encouraging private investment in Italy's depressed South. It was deemed that here capital formation would be most useful if it were concentrated in three "propulsive sectors": agriculture, public utilities (electricity, natural gas, railways, telephone, and aqueducts), and public works (adjustment of river beds, road works,

¹⁷ For other indexes of the South's relatively inferior economic position, see Lutz, *Italy*, *op. cit.*, p. 92; and Gustav Schachter, *The Italian South: Economic Development in Mediterranean Europe* (New York: Random House, 1965), pp. 25-27. The economic split between the North and the South is so deep that many students of economic development refer to Italy as the "dual economy" *par excellence*.

¹⁸ United Nations, *Economic Survey of Europe in 1953* (Geneva, 1954), p. 140.

¹⁹ Ilardi, *op. cit.*, p. 219. Also: "It will only be possible to attain the targets set by the Plan . . . if consistent foreign aid and large investments of foreign capital are forthcoming." *Ibid.* (Emphasis in the text.)

school building).²⁰ Investment in the latter two sectors was expected to promote "external economies" which would so reduce production costs that private capital (both domestic and foreign) would be encouraged to migrate to the South. Investment in agriculture was desirable because, by increasing agricultural output, it would break the "food bottleneck," that is, the tendency for food prices to rise with any improvement in money incomes,²¹ which naturally hampers achievement of the goal of real income growth.

The distribution of foreign private investment that Italy received between 1956 and 1963 clearly did not facilitate the narrowing of the per capita income differential between Northern and Southern Italy *by the means indicated in the Italian government plans*. Sectorally, only 1 per cent of the 1956-63 foreign capital inflow went into agriculture and nothing at all was received by the other two "propulsive sectors," public utilities and public works. Regionally, the South received only a known 19.70 per cent of the countrywide total. Thus, the hope that the foreign investment legislation of 1956 would induce foreign capital to flow to the "propulsive sectors" in the South clearly did not materialize.²²

In retrospect, one may say that a regional-sectoral distribution of foreign capital different from the one that occurred would have been almost impossible. The cost considerations noted previously weighed too heavily in favor of the North. Paradoxically, the government itself, by embracing a "liberal" foreign trade policy in the postwar period, increased the relative advantage of a Northern location.²³ Reflecting these advantages

²⁰ Summaries and reviews of the goals and policies of the Vanoni Plan and the Cassa are to be found in Ilardi, *op. cit.*, pp. 210-18; Pasquale Saraceno, "The Vanoni Plan Re-examined," Banca Nazionale del Lavoro *Quarterly Review*, Vol. X (Dec., 1957), pp. 375-96; and Giuseppe Di Nardo, "I Provvedimenti per il Mezzogiorno: 1950-1960," in *I Piani di Sviluppo in Italia dal 1945 al 1960* (A. Giuffrè, ed., Milan, 1960).

²¹ I have examined this tendency in Chapter III, Part I, of my dissertation, where I point out that in 1953-61, 40.45 per cent of the increase in Italy's consumer price index was caused by rising food prices. In 1962 and 1963 total demand for agricultural goods increased, in real terms, 5.4 and 7.3 per cent, respectively, while output rose 1.3 per cent in 1962 and remained stable in 1963. That the price increase was only 10 per cent is due to large imports. Banca d'Italia, *Relazione Annuale: 1963, op. cit.*, pp. 480, 65, and 107.

²² That this was the hope of the 1956 foreign investment legislation is apparent not only from Professor Ilardi's statements noted above, but also from the almost complete identity of the Vanoni Plan's "propulsive sectors" with the examples of "productive enterprises" mentioned by a government publication explaining the meaning and import of the February, 1956, foreign investment law. Ministero del Tesoro, *Commento alle nuove disposizioni in materia di investimenti di capitali esteri* (Rome, 1956), p. 11.

²³ The reduction or the elimination of tariffs on raw materials imported by Italy represented a greater relative gain to Northern Italy than to Southern Italy. For instance, if raw materials f.o.b. Essen (Western Germany) cost 7, the Italian customs tariff is 3 and transportation costs to Milan (Northern Italy) are 2, total cost of the raw materials c.i.f. Milan is 12. If transportation costs to Naples (Southern Italy) are 4, costs c.i.f. Naples will be 14. The elimination of tariff will reduce the two c.i.f. prices to 9 and 11, respectively—a 25 per cent reduction to Milan prices but only a 21.4 per cent reduction to Naples prices.

is a Northern marginal capital-output ratio of about 2 as compared with a ratio of 4 for Southern Italy.²⁴ This means that a 4 per cent increase in real national income can be obtained in the North by raising investment by 8 per cent, but in the South only by raising investment by 16 per cent.

Indeed, the distribution characteristics of foreign direct investment in Italy are very similar to the distribution characteristics of foreign investment for the world as a whole. This is not surprising since Italy mirrors within its boundaries the main economic characteristics of the world: the division between industrial (high income) and rural (low income) areas.

IV

THE FACT that the distribution of foreign capital does not fit in the framework of the development plans of the Italian government does not, however, mean that foreign investment was deleterious to Italy's economic development. Even if we concluded that foreign capital assisted the income growth of the North only, the issue would be: Is a faster rate of per capita income growth in the North (*e.g.*, North: 6 per cent; South: 4 per cent) preferable to identical rates of growth in both areas (*e.g.*, 4 per cent for both)? The Vanoni Plan and the efforts of the government to bridge the gap between the two Italies imply that the answer to this question is "no," but the point is at least debatable.

Actually it is reasonable to believe that a concentration of foreign investment in the North redounds to the advantage of the South also and hence tends to promote the healing of the economic split between the two areas. First, to the extent that the output created by foreign capital is sold abroad, Italy accumulates foreign exchange which the planning agencies could conceivably use to import raw materials and capital goods to promote Southern industrial development, following the directives of governmental plans. Second, as the liquidity of the Italian banking system increases because of the capital inflow, banks may find it feasible to lend for marginal (riskier) projects, projects which are likely to be in the Southern regions. Third, and most important, foreign capital formation in the North creates an increase in the demand for labor there²⁵ and, given Northern Italy's "tight market" situation, induces "migration"

²⁴ United Nations, *Economic Survey of Europe in 1959* (Geneva, 1960), Chapter VII, p. 45, estimates a Southern marginal capital-output ratio (1950-57) of 4.0. Since a similar index for Italy as a whole was estimated to be 2.9 (John H. Adler, "World Economic Growth—Prospects and Retrospects," *Review of Economics and Statistics*, Vol. XXXVIII, August, 1956, Table 1, p. 274), Northern Italy's index must be less than 2.9, *e.g.*, 2.0.

²⁵ The extreme case where foreign capital formation is of the labor-displacing variety can safely be ignored.

from the South.²⁶ Such a movement of labor is desirable because it helps to relieve the pressure of population on the South's meager non-human resources. And if it is agreed that the labor-land and labor-capital ratios in Southern agriculture are too high for maximum per capita output, then an exodus of people from Southern farms to Northern Italy may help increase the real per capita incomes of those left behind.²⁷

The likely increase in Southern agricultural productivity and the decrease in the number of people to be fed lessens the severity of the food bottleneck, thus enabling Southern industrialization to proceed without being hampered by food price increases. Also, higher productivity and incomes facilitate the accumulation of the saving of money which is likely to find its way into local investment. In brief, Southern Italy, too, may be propelled into self-sustained growth.

These benefits to the South, however, derive from the operation of what we may call the "classical" mechanism of labor mobility, not from the "modern" development techniques (building up social overhead capital in depressed areas) on which Italian planners counted to promote the economic growth of the South.²⁸

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Boston

²⁶ In 1951-61, 1.1 million people left the South for Northern Italy. Organisation for European Cooperation and Development, *Italy* (Paris, 1963), p. 29, diagram 3. Undoubtedly, many of them were attracted by labor shortages partly caused by foreign capital formation.

²⁷ Schachter, *op. cit.*, p. 92, presents the results of a survey on quantities demanded and supplied of agricultural labor in the South in 1958. For the South as a whole, total available labor amounted to 743 million man-days; total full-time employment (total demand) was 383 million man-days. This leaves a "disguised unemployment" of 360 million man-days—48.5 per cent of total supply. On a regional basis, the lowest such rate was Abruzzo's (40.8 per cent).

²⁸ Other "modern" development techniques which failed to attract foreign capital to the South were: (a) fiscal reliefs, e.g., reduction by 50 per cent of the General Turnover Tax (IGE), ten-year exemption from income taxes (Imposta di Ricchezza Mobile), partial or total exemption from certain local taxes, reduction of stamp duties; 50 per cent reduction of the government tax on electric power for industrial uses; (b) grants; and (c) credit facilities to industry. For a review of these concessions—which apply to foreign as well as domestic capital—see Banca Nazionale del Lavoro, *A Guide for Foreign Investors*, *op. cit.*, pp. 42-50.

Table 2--Regional distribution of foreign direct investment, 1956-1963
(millions of dollars).

REGION	1956-1958			1959-1961			1962		1963		1956-1963	
	Total volume	Annual average	Percent (%)	Total volume	Annual average	Percent (%)	Total volume	Percent (%)	Total volume	Percent (%)	Total volume	Percent (%)
Piedmont	1.38	0.46	1.55	11.10	3.70	7.60	0.96	2.08	4.32	7.28	17.76	5.21
Lombardy	36.56	12.19	41.03	81.04	27.01	55.48	12.00	25.99	13.28	22.37	142.88	41.94
Trentino-												
Alto Adige	0.27	0.09	0.30	1.01	0.34	0.70	1.60	3.47	0.96	1.62	3.84	1.13
Venitia	0.73	0.24	0.81	3.59	1.20	2.47	2.24	4.85	0.64	1.08	7.20	2.11
Friuli-Vene-												
zia Giulia	0.95	0.32	1.08	0.33	0.11	0.22	0.16	0.35	0.00	0.00	1.44	0.42
Liguria	6.48	2.16	7.27	1.84	0.61	1.25	0.64	1.39	5.12	8.63	14.08	4.13
Emilia	2.44	0.81	2.73	3.00	1.00	2.05	2.24	4.85	4.16	7.01	11.84	3.47
Tuscany	2.09	0.69	2.32	9.87	3.29	6.76	2.40	5.20	0.64	1.08	15.00	4.40
Lazio	17.36	5.79	19.48	11.92	3.97	8.15	4.00	8.66	20.48	34.50	53.76	15.78
Umbria	0.00	0.00	0.00	0.80	0.27	0.55	0.00	0.00	0.00	0.00	0.80	0.23
Total North	68.26	22.75	76.57	124.50	41.50	85.25	26.24	56.85	49.60	83.56	268.60	78.84
Campania	1.78	0.59	1.98	9.58	3.19	6.55	10.80	23.40	4.96	8.36	27.12	7.96
Abruzzo	0.00	0.00	0.00	0.00	0.00	0.00	6.40	13.86	0.32	0.54	6.72	1.96
Puglia	0.00	0.00	0.00	0.00	0.00	0.00	0.48	1.04	0.00	0.00	0.48	0.14
Sicily	18.62	6.21	20.90	6.66	2.22	4.56	2.08	4.51	3.68	6.20	31.04	9.11
Sardinia	0.46	0.15	0.50	1.30	0.43	0.88	0.00	0.00	0.00	0.00	1.76	0.52
Total South	20.86	6.95	23.39	17.54	5.84	12.00	19.76	42.81	8.96	15.09	67.12	19.70
Unclassified	0.00	0.00	0.00	4.00	1.33	2.73	0.16	0.35	0.80	1.35	4.96	1.46
Total Italy	89.12	29.71	100.00	146.04	48.68	100.00	46.16	100.00	59.36	100.00	340.68	100.00

Note: Totals may not add to 100.00 due to rounding

Sources: 1956-1958: Centro Investimenti Esteri e Sviluppo Economico, Foreign Private Capital Investments in Italy from 1948 to 1958 (Rome: 1960), Table XXV (no page number)
1959-1963: Istituto Nazionale per il Commercio Estero, Informazioni Commercio Estero, No. 6 (February 7, 1963), p. 326, and No. 6 (February 6, 1964), p. 366

Table 3--Distribution of foreign direct investment by sector of economic activity, 1956-1963
(in millions of dollars)

Economic Sector	1956-1958			1959-1961			1962		1963		1956-1963	
	Total volume	Annual average	Percent (%)	Total volume	Annual average	Percent (%)	Total volume	Percent (%)	Total volume	Percent (%)	Total volume	Percent (%)
Chemical- Pharmaceutical	34.6	11.5	38.7	34.2	11.7	23.9	9.4	20.8	2.7	4.6	80.9	23.7
Metallurgical- Mechanical	8.6	2.9	9.8	20.0	6.7	13.7	5.9	13.0	5.6	9.5	56.0	16.4
Electric- Electronic	0.3	0.1	0.3	15.5	5.2	10.6	5.1	11.3	11.4	19.2	32.3	9.5
Rubber	*	*	*	19.4	6.5	13.3	*	*	3.5	5.9	22.9	6.7
Paper-making	0.4	0.1	0.3	8.2	2.7	5.5	1.6	3.5	7.5	12.7	17.6	5.2
Ship-building	6.4	2.1	7.1	1.9	0.6	1.2	0.8	1.8	0.0	0.0	9.1	2.7
Food-processing	0.8	0.3	1.0	4.5	1.5	3.1	3.0	6.6	7.4	12.6	15.7	4.6
Res. Construction	1.4	0.5	1.7	5.3	1.8	3.7	1.6	3.5	0.5	0.8	8.8	2.6
Glasswork	*	*	*	*	*	*	7.5	16.6	*	*	7.5	2.2
Textiles	0.3	0.1	0.3	3.7	1.2	2.5	0.8	1.8	0.4	0.7	5.3	1.6
Tourism	*	*	*	1.9	0.6	1.2	2.4	5.3	0.4	0.7	4.6	1.3
Agriculture	1.1	0.4	1.5	1.5	0.5	1.2	0.2	0.4	0.8	1.4	3.5	1.0
Mining	0.4	0.1	0.3	0.4	0.1	0.2	0.0	0.0	0.0	0.0	0.8	0.2
Petroleum	26.9	9.0	30.3	26.7	8.9	18.2	3.5	7.7	17.6	29.7	74.7	21.9
Other	7.9	2.6	8.8	3.5	1.2	2.5	3.5	7.7	1.4	2.4	1.2	0.4
Totals	89.1	29.7	100.0	146.7	48.9	100.0	45.3	100.0	59.2	100.0	340.9	100.0

* data included in "other"

Note: Totals may not add to 100.0 because of rounding

Sources: See Table 2, above.

Internal Resources, Catalyst of Development

CERTAINLY I AM AN OPTIMIST about the long-run prospects for economic progress in the less developed areas. The wealth of the world and the well-being of its peoples unquestionably can increase, and it is my belief that they are going to increase.

At the same time, no one can be happy about the state of the international development effort today. Not enough of the underdeveloped countries have taken the true measure of their problems, and not enough countries—both industrialized and underdeveloped—are taking the actions which would adequately respond to the gravity of these problems.

Many countries are showing what can be done to lift output and living standards. Out of 80 developing countries in the membership of the International Bank for Reconstruction and Development, about one third have attained in the recent past rates of 5 per cent or more in growth of real income, the target rate of the Development Decade. A high rate of growth is different from self-sustaining growth, however, and these countries will need encouragement and support for a considerable period.

On the other hand, in close to half the 80 countries, accounting for 50 per cent of population, income per head has risen by 1 per cent or less.

At a 1 per cent growth rate, income levels will hardly reach \$170 a year by the end of this century, 35 years hence. In some countries it will be much lower. This is crude arithmetic. But its implications are sobering.

It is useless to attempt to sugar-coat the fact that, in many of the underdeveloped countries, economic performance can be greatly improved.

It is urgent for many of them to cut down some of the biggest items of waste—excessive military expenditures, prestige projects, inefficient administration, overstaffing of railways and other public enterprises, and subsidies to public services that could and should be self-supporting.

Some must take firm steps to keep down population growth.

Nearly all of the low-income countries must redouble their efforts to overcome the lag in agricultural productivity—literally the most vital, yet at the same time generally the most feeble, of the economic sectors in the underdeveloped world.

Governments which provide development finance are subjected to searching questions by their legislatures and their peoples about it. The most careful use of aid by each of the recipient countries is constantly necessary if they are to expect continued assistance, and on a larger scale. Performance will have to stand up to close scrutiny. [From an address.]

GEORGE D. WOODS

Marshall and Weber on Wealth and Property: A Comparative Appraisal*

By THOMAS D. CURTIS

THE PURPOSE OF THIS ARTICLE is to compare and evaluate Weber's concept of property structure with Marshall's well-known discussion on wealth. It will be shown that Weber developed two definite types of property structure which led him to the theories of imperfect competition as well as pure competition. Marshall, on the other hand, distinguished only one property structure which became the basis for his representative firm and a rationale for pure competition.¹ Section I will develop Marshall's theory of wealth. Section II will be devoted to distinguishing and explaining the two types of property structures found in Weber. And Section III will be a critical evaluation and comparison of the two theories.

I

ALFRED MARSHALL IS OFTEN CALLED the "Great Reconciler" due to the methodology which he followed in his *Principles*. Marshall gained everlasting fame from this book for his efforts to reconcile the then-current problems of economics which were causing a great deal of professional strife and bickering. He was generally successful in the following areas.

1) Cost and Utility: He was able to synthesize the cost theory of the Classical School with the utility theory of the Marginal School by handling the problem of time through the use of time periods (Market, Short Run, Long Run, and Long Run Secular Change Period).

* The author wishes to acknowledge the helpful comments and suggestions of Professors Arthur Schweitzer of Indiana University and Robert Marshall of the University of Arizona.

¹ It should be pointed out that Marshall never rigorously defined his "free" competition as pure or perfect competition. In fact, Book V, Chapter 14, of his *Principles* and Book III, Chapter 1, of his *Industry and Trade* contain the germs of monopolistic competition. Though he talked about the "great majority of markets" which lie "mid-way between the extremes" of competition and monopoly he did very little when it came to examining this area. Instead his treatment of markets is divided into two "ideal" types of firms: the atomistically competitive firms which can be treated as if they were perfect competitors in an industry and monopolies. Most of Marshall's work in his *Principles* falls into this first type of abstract model, and it is in this sense that we speak of pure competition throughout this article. For further discussion in this area the interested reader is referred to D. C. Hague, "Alfred Marshall and the Competitive Firm," *The Economic Journal* (December, 1958), pp. 673-90; J. N. Wolfe, "The Representative Firm," *The Economic Journal* (June, 1954), pp. 337-49; Milton Friedman, *Essays in Positive Economics* (Chicago: The University of Chicago Press, 1953), pp. 34-39.

2) *Methodenstreit*: In his *Principles*, Marshall used induction and deduction because he felt that both were necessary tools in his search for the "truth." He had long been interested in the historical school of economics and did not hide this from his readers. Even in the last edition of his *Principles* (8th ed., p. 767) he held that: "The most important economic work . . . that has been done on the Continent in this century is that of Germany."

3) Reform: Marshall wanted to see the existing socioeconomic structure of society reformed in an evolutionary rather than a revolutionary fashion. This "evolution-mindedness" was carried into his theoretical work and as an instrument of research has exerted quite a bit of influence.²

4) Mathematics: Without the use of mathematical analysis Marshall probably would have been unable to transform the material of the Classical School into his modern engine of research. But once having done this, he relegated his mathematical proofs and explanations to footnotes and appendices. He did this because he wanted his *Principles* to be read by laymen without mathematical backgrounds.³

These four areas are of a general nature and represent the broad contribution of his efforts. In each of the areas he established methodological precedents which are still being followed today.

Marshall's more specific contributions to economics are the tools which he devised such as the concept of demand and supply elasticity, consumers' surplus, quasi-rent, substitution, the long and the short run, increasing and decreasing costs, internal and external economies, and the representative firm. Most of these tools have stood the test of time and are still the major implements of micro-theory. But some of these tools, *i.e.*, increasing and decreasing cost, the doctrine of external economies, and the representative firm, created logical difficulties when placed within the framework of his general equilibrium theory.

Marshall's typical market classification was that of competition. In pure competition the size of the firm is limited by increasing costs, not by the size of the product market; thus the firm's marginal cost curve must turn up and intersect its horizontal demand curve from below. The theory assumes that each firm, at the given market price, must be operating on the rising portion of its marginal cost curve.⁴

² Joseph A. Schumpeter, *Ten Great Economists* (New York: Oxford University Press, 1951), pp. 106-7.

³ *Ibid.*, pp. 97-98.

⁴ Piero Sraffa, "The Laws of Returns under Competitive Conditions," *A. E. A. Readings in Price Theory* (Chicago: Richard D. Irwin, Inc., 1952), pp. 188-89.

The dilemma in his system arises because on one hand he made economies of scale one of the necessary conditions for growth and on the other hand he did not want to reject the concept of competition. He had to find some way to preserve both features of his system, and the device which he used took the form of a biological analogy. The life span of a business firm has the same general characteristics as the life span of a tree: youth, maturity, and old age.

But here we may read a lesson from the young trees of the forest as they struggle upwards through the benumbing shade of their older rivals. Many succumb on the way, and a few only survive; those few become stronger with every years . . . and seem as though they would grow on forever . . . but sooner or later age tells on them all.

And as with the growth of trees, so was it with the growth of businesses as a general rule before the great recent development of vast joint-stock companies, which often stagnate, but do not readily die. Nature still presses on the private business by limiting the length of the life of its original founders, and by limiting even more narrowly that part of their lives in which their faculties retain full vigor.

. . . the general character of our conclusions is not very much affected by the facts that many of these economies depend directly on the size of the individual establishments engaged in the production, and that in almost every trade there is a constant rise and fall of large businesses, at any one moment some firms being in the ascending phase and others in the descending.⁵

From this biological analogy Marshall goes on to the representative firm which he calls a typical tree of a virgin forest. The purpose of the representative firm was to provide us "with a miniature illustration of the supply curve of the industry" and to justify the needed assumptions of industry equilibrium operating under the conditions of competition.⁶

Marshall's concept of the representative firm soon became recognized as one of the weakest points in his *Principles*. Though it has often been criticized, few have taken the trouble to trace it back to its true source. Even today writers are still explaining the cause of this weakness by alluding to Marshall's "restless quest for realism" and his refusal to be "bound by static assumptions. . . ."⁷ This, in my opinion, is incorrect. The real substructure of Marshall's representative firm is found in Book II, Chapter 2, and in Book IV, Chapters 7-13. It is in these chapters that Marshall's theory of wealth is developed.

⁵ Alfred Marshall, *Principles of Economics*, 8th ed. (New York: The Macmillan Co., 1948), pp. 315-16.

⁶ M. Blaug, *Economic Theory in Retrospect* (Homewood, Illinois: Richard D. Irwin, Inc., 1962), p. 375.

⁷ *Ibid.*, p. 374.

Marshall divided the wealth of an individual into four broad classifications.⁸ The first classification he called "material goods," goods, which are regulated through law or custom. An example of this type of wealth is property rights which are transferable and exchangeable. The second classification is what he called "immaterial goods" which are external to the individual. Examples of this classification are business and professional connections, the individual's business organization, and his property in slaves and labor due him. The third classification is called "personal wealth," *i.e.*, wealth composed of the individual's personal energies and education. The fourth classification is referred to as "common wealth" and includes such factors as the country and climate in which the individual lives.

After classifying wealth Marshall turned his attention to its growth. As we shall see below, Marshall's examination of the growth of wealth is not nearly so exacting and penetrating as Weber's. In Marshall's theory the growth of wealth was brought about only by accumulation, which was a very long, slow process which fits quite well with his biological analogy. He was very much impressed with the idea that "family affection" was the main reason why men accumulated property.

But were it not for the family affections, many who now work hard and save carefully would not exert themselves to do more than secure a comfortable annuity for their own lives; either by purchase from an insurance company, or by arranging to spend every year, after they had retired from work, part of their capital as well as all their income. . . . A man can have no stronger stimulus to energy and enterprise than the hope of rising in life, and leaving his family to start from a higher round of the social ladder than that on which he began.⁹

This savings or accumulation was to be done by working hard and spending less than what was earned. In many ways this section of Marshall's closely parallels Weber's main theory in *The Protestant Ethic and the Spirit of Capitalism*. The main difference is that Marshall stresses family affection as the principal cause for a man to work hard, save, and accumulate wealth, while Weber was concerned with the effects that Protestantism may have had upon this very same type of situation. The important thing to notice is that Marshall felt that the growth of wealth was brought about by family accumulation rather than appropriation. This type of growth was very slow and there was no guarantee that the second generation, which started out a little higher than the first, would be able

⁸ The following paragraph is paraphrased from A. Marshall, *op. cit.*, *Principles*, Book II, Chapter 2.

⁹ *Ibid.*, p. 228.

to leave the third generation the same or a greater amount of wealth.

Marshall realized that wealth could be obtained through appropriation, but he looked upon appropriation as being a deterrent to accumulation. To him appropriation had to be abolished because it was a form of insecurity to those who wished to save. He cites as examples of this the situation of the border country between England and Scotland and the eighteenth-century French peasants.

The border country between England and Scotland made little progress so long as it was liable to incessant forays; there was very little saving by the French peasants in the eighteenth century when they could escape the plunder of the tax-gatherer only by appearing to be poor. . . .¹⁰

Marshall's historical evidence was correct; but he failed to consider that these plundering neighbors were increasing their wealth, and doing it at a very rapid rate through appropriation. Therefore it seems that although Marshall realized appropriation was a form of accumulating property, he looked upon it as a social wrong and felt that it should be abolished. The crucial point for our purpose is that Marshall did not consider, or did not want to consider, the fact that appropriation need not take the form of war but could take many different forms and still be legal.

Since Marshall considered appropriation a social ill that needed to be removed by government, his theory limits the expansion of property to accumulation which, in turn, limits the size of the property structure to a small scale. Instead of having the development of large agglomerations of wealth and productive capacity under single control which perpetuate themselves, we have these giants losing their vigor and vitality as old age tells upon them. True, new giants of the forest may take their place, but these also must suffer the same eventual fate of their predecessors. If the demand for an industry's product increases, this new demand will be fulfilled by new firms entering the industry and not through the existing firms expanding their plant capacity by means of appropriation. The existing firms may expand their productive facilities through accumulation, but this will be a slow and relatively insignificant process. Thus Marshall's theory of wealth becomes the logical basis for his biological analogy of the representative firm and competition.

II

MAX WEBER WAS THE OUTSTANDING social scientist in Germany during the latter part of the nineteenth century and the first twenty years of this century. But unlike Marshall, Weber is not especially known for his contributions

¹⁰ *Ibid.*, p. 226.

in the area of economics. Therefore, before developing his theory of property structure and comparing it to Marshall's discussion on wealth, some introductory statements are necessary.

There are a number of reasons why Weber's contributions in the area of economics are relatively unknown to the English-speaking world. The first reason is a combination of the language barrier and his style of writing. A large portion of his material has never been translated from German to English. Part of the reason for this is his style of writing, for most of his works are extreme examples of the German academic tradition. He addressed himself to the eye of the silent reader and by means of German printing conventions often emphasized words and phrases which do not readily lend themselves to English printing methods and translation.¹¹

A second barrier is the result of his ability in the area of sociology. Weber was accepted quite early as a sociologist by the English-speaking world, and this label has stuck. Even today many well-known scholars think of him as a sociologist who, from time to time, dabbled around in other fields. Therefore many historians, economists, etc., fail to turn to Weber because they are unaware of his many contributions within their own fields. This relative obscurity seems to be disappearing slowly as more and more of Weber's works are translated into English.

Finally, a third reason is Weber's unexpected death. His major work in the field of economics, *The Theory of Social and Economic Organization*, was conceived by him as only an introduction to his main study of the sociological and institutional foundations of economics. Even this "introduction" was left incomplete by his death, and the editors were forced to arrange the existing manuscript material in the manner which they deemed best. Weber had not planned to have this material published in its existing form. It was more of an outline and notes to himself than a finished book.

These are some of the reasons why Weber's work in economics is relatively unknown to the English-speaking mainstream economists. Quite obviously there are others, but the purpose of this article is not to reopen the *Methodenstreit*. Therefore, without any further background let us enter into an examination of Weber's method of handling what Marshall called wealth and its growth.

Weber used the term "property structure" when referring to the non-human means of production, with slaves being the only exception.¹² He

¹¹ H. H. Gerth and C. W. Mills (eds.), *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1958), pp. VI-VII.

¹² Max Weber, *The Theory of Social and Economic Organization*, trans. by A. M. Henderson and T. Parsons (Glencoe, Illinois: The Free Press, 1947), pp. 40-46 and 132-45.

was very much concerned not only with who owned property and how it was utilized under the ownership but also with the development process of this ownership. The concept of property grew out of the "closed social relationship." The advantages (*Chancen*) forthcoming from the closure of relationships are soon looked upon by members as rights that have some degree of transferability. The rights of the individual must be respected by the other members of the closed relationship, following definite prescribed conditions of the group; and through tradition and law these rights will be protected from individuals outside the closed relationship.¹³ In other words, there is a mutual consensus among the different owners of property; without this you would have mere possession instead of ownership of property. These rights give the owner the power of control and disposal over the property that is possessed. The benefits derived from this property belong to the owner, and all others are excluded from its benefits.

Because of his study of property structure Weber was able to distinguish different types of economic power which could bring about monopoly positions.¹⁴ Traditional economics generally recognizes market power as being the prime source of monopoly power, but this is not the case. Market power is one of the most easily discernible forms of economic power, but by itself it cannot constitute the real basis of economic power. What have been neglected are ". . . all the differences in power between the power in the market, in the concentrated property structure, in economic organizations, and in the State."¹⁵ In dealing with the property structure Weber observed two types of power which gave rise to monopoly situations.

The first form of power is market power and gives rise to market monopolies. In a market monopoly, the individual possessing the property will restrict the goods being produced with the expectation of enjoying more profits than he would be able to enjoy under a competitive market. In the short run this type of restriction may bring about idle capacity, and in the long run the monopoly profits must be consumed or reinvested in some other line. Thus a market monopoly will lead to a restriction of output and to a status quo as far as expansion in the same line is concerned. This is an obvious conclusion, given the traditional static assumptions, because if the monopolist were to continue to reinvest his profits in the same

¹³ *Ibid.*, pp. 139-40.

¹⁴ *Ibid.*, pp. 140-41.

¹⁵ Arthur Schweitzer, "A Critique of Countervailing Power," *Social Research* (Autumn, 1954), p. 255.

kind of property, he would experience a larger and larger portion of idle capacity as time went by.

The other form of power is property power, which instead of leading to restriction of output leads to the exclusion of inputs. Exclusion is brought about by a property monopoly and does not experience the same degree of idle capacity. The emphasis here is on excluding others from gaining economic advantages. This is done through legal rights in the form of patents or by "plutocratic" exclusion.¹⁶ Weber uses this term to describe situations where some units of the property structure enjoy a privileged position either because of their wealth or because they own a specialized item. An example of the first kind can be found in the capital market where wealthy individuals or firms are able to borrow at a lower rate of interest than their not-so-fortunate competitors. An example of the second would be the possession of property which cannot be expanded either because of nature or some man-made constraint, such as possession of a natural monopoly. In either case the exclusion has the effect of leading to an expansion of the same kind of property for the individual.

The above discussion of market power which leads to restriction and property power which leads to exclusion is very closely related to Weber's theory of the development of two basic property structures. He believed that the ownership of property could be expanded in two ways, and this became the basis for his distinguishing between two different property structures instead of one.

The two ways that the ownership of property can be expanded are through "accumulation" and "appropriation." Accumulation is a process of property expansion which takes place within an economic unit. There are five typical forms of accumulation: 1) increasing one's productivity; 2) abstinence (with a given level of productivity one spends less than one earns and reinvests the difference in the same kind of property); 3) retaining a position of one's earned profits and reinvesting it in the same kind of property; 4) receiving gifts from the family; and 5) exploiting the labor and capital of others.

Appropriation is brought about by increasing one's property rights from outside the economic unit and adding them to one's total property. The typical forms of appropriation are: 1) inheritance, or marrying into a family as wealthy as or more wealthy than one's own; 2) the occupation of natural resources for which there are no substitutes; 3) cheating some other person out of his property; 4) conquest, with booty being the net addi-

¹⁶ Weber, *op. cit.*, p. 141.

tion;¹⁷ and 5) the expropriation of someone else's property without giving compensation for it. The common feature of the five forms of appropriation is that the value of the property acquired exceeds the cost expended to get it. Weber used the term "inequitable appropriation" to describe situations of this type.¹⁸

On the basis of the above discussion we are able to summarize Weber's two basic "property structures." His first type of property structure is of a small scale and is the same as Marshall's accumulation of wealth. The property right of the individuals have been acquired through accumulation, with little or no opportunity for inequitable appropriation. The value of these small-scale properties for the majority will tend to remain constant over time with a few of them increasing in value very slowly, while others will be diminishing in value. His second type of property structure is of a large scale and has been acquired by appropriation. These large-scale property structures have opportunities for further growth through inequitable appropriation, rapid internal accumulation, privileged position in the capital market, and technological advantage.

III

WITH THE ABOVE DISCUSSION as a background, we can now examine the impact that the size of the property structure has upon markets. It is on this aspect of markets that the weakness of Marshall's theory stands out. The small-scale property structure, which both Marshall and Weber attribute to accumulation, fits very neatly into the Classical School's market of pure competition. The small-scale property structure lends itself to atomistic competition in every way except in the area of explaining national growth.¹⁹ As we have already seen, the rate of growth through accumulation is very slow, and quite often the per capita value of the property will remain the same throughout a long period of time. If this were the only property structure in a nation, the rate of growth would be practically negligible. It is here that we can see the first real weakness of Marshall's theory.

¹⁷ For two excellent but different interpretations on this type of appropriation see: Joseph Schumpeter, *Imperialism*, translated by H. Norden (New York: Meridian Books, 1955); and Arthur Schweitzer, "Big Business and Private Property under the Nazis," *The Journal of Business of the University of Chicago* (April, 1946), pp. 99-126).

¹⁸ One of the best examples of inequitable appropriation is found in the history of the building of the transcontinental railroads in the United States. For a general discussion see Richard Hofstadter, *The American Political Tradition* (New York: Vintage Books, 1955), Chapter VII.

¹⁹ It is because of this very problem that Marshall is forced to put too much faith in his external economies; see A. Marshall, *op. cit.*, pp. 316-17.

The second weakness is even more easily seen when we examine the present-day market structure. The small-scale property structure by itself does not explain why imperfect competition, not atomistic competition, is the most prevalent form of market structure today. If Marshall is correct that the ownership of the property structure of an economy is based solely on accumulation, then imperfect competition should not exist. Since it does exist, we are forced to conclude that Marshall's theory of the growth of wealth and his representative firm are inadequate because they are incomplete.

On the other hand, Weber's theory is compatible with both types of market structure. His small-scale property structure is basically the same as Marshall's, but he realized that this by itself was not enough to explain the actual market conditions and property structures found in the world. His theory of the two types of property structures gives the economist a much more effective tool with which to analyze all types of market structures. In addition to this, Weber's theory of a dual property structure lends itself to the problems of economic growth in the developing nations of the world better than Marshall's theory does.

The real question of interest is why a man as brilliant as Marshall was unable to see the need for both types of property structures. One reason for this gap might be that Marshall based too much of his research on past economic systems which were characterized by small property structures that expanded basically through accumulation. Another reason, and the one which seems the most probable to this writer, is that Marshall seemed to feel that accumulation and not appropriation was the "right" foundation upon which to build the property structure.²⁰ After all, anyone who could base his socioeconomic reform on the concept of "economic chivalry" could conveniently overlook the importance of appropriation and even devise logical tools which at first glance give the impression of taking care of the problem.

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²⁰ *Ibid.*, p. 719.

On Definitional Controversy in Economics

By THOMAS HAVRILESKY

THIS IS A METHODOLOGICAL PROTEST directed at the continuing controversy in economics over "proper" measures of economic concepts such as "money" and "autonomous expenditures."¹ Why do economists who should know better periodically quarrel over definitions? Since readers are influenced by tradition, economists for persuasive purposes wisely intersperse their work with traditional terms. The retention of traditional labels is not objectionable *per se*.

The problem is that economists, for reasons discussed below, feel that they must search for "better" definitions of them, and too often this has distracted them from proper scientific pursuits. For example, at the beginning of this century much discussion centered on the "nature" of capital.² Controversy over the "best" definition of capital is today generally considered to have generated little scientific advance. Without attendant theories in which concepts appear one cannot *know* what will be learned by such measurement. With specified theories the arguments over definitions are superfluous. The choice of definitions would rather seem to follow from the choice among competing theories in which they are contained.

The intuitive search for definitions which describe the timeless essence of things has been called by Professor Popper *methodological essentialism*.³ Since all conclusions must logically follow from essential definitions, all knowledge is contained in them. *Methodological nominalism* is viewed as the use of terms as convenient, shorthand labels for theoretical concepts. Scientific knowledge derived from theories in which these concepts are used will not depend on the labels attached to them. This

¹ As more recent examples of this problem see the arguments in: Albert Ando and Franco Modigliani, "The Relative Stability of Monetary Velocity and the Investment Multiplier"; Michael DePrano and Thomas Mayer, "Tests of the Relative Importance of Autonomous Expenditures and Money"; and Milton Friedman and David Meiselman, "Reply to Ando and Modigliani and to DePrano and Mayer," in *American Economic Review*, September, 1965. See also, Donald D. Hester, "Keynes and the Quantity Theory: A Comment on the Friedman-Meiselman CMC Paper"; Friedman and Meiselman, "Reply to Donald Hester," and Hester, "Rejoinder," in *The Review of Economics and Statistics*, November, 1964.

² J. A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 898.

³ Karl Popper, *The Open Society and Its Enemies* (London: Harper and Row, 1945), Chapters 3 and 11.

approach is prevalent in modern science. The essentialist approach (of Aristotelian origin) leads to the problem of infinite regress of definitions and further fruitless appeal to intuition if different men's intuitions disagree.

While few modern economists would admit to being essentialists, the advance of scientific knowledge has, too often, depended on the labels attached to concepts from which such knowledge is derived. For instance, economists, for practical, persuasive reasons, attach the label "money" to several theoretically different entities currently under discussion. Obviously the statement that the velocity of money is stable has more persuasive appeal than the statement that the velocity of certain very liquid assets is stable. However, merely because it is effective to use these terms, recent quarrels need not have raged over appropriated definitions of them.

Economic science has revised its concept of money (just as it has revised its concept of "profit") only because theories containing the older concept have been refuted. For example, in the nineteenth century under the labor theory of value, money was conceived and defined as a standard of value. Only gold theoretically qualified as money because only gold was stable in terms of its labor embodiment and could serve as the "standard" with which to measure the "value" (relative labor embodiment) of other commodities. In time the labor theory of value was rejected, but money is, in part, still defined as a standard of value. Obviously this archaic verbal definition alone has little scientific import for modern economics. Only the theories in which a definition is contained have meaningful content because only the *entire* theory is examined by modern science. Therefore, as no accepted theories remain which use this part of the definition of money, its retention in textbooks, however superfluous, elicits little concern.

Modern economists should be able to attach an older term to a new concept without provoking wasteful controversy over the term's verbal definition. The fact that the advance of contemporary economic science occasionally seems to depend on substantive agreement as to appropriate definitions is contrary to the spirit of modern methodological nominalism. Attachment to traditional labels should not distract economists from open-minded scrutiny of hypotheses. If this is done, agreement as to the "better" theory will resolve the selection of appropriate definitions.

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R E V I E W S

The Education of an Economist Before the Great Depression

*Harvard's Economics Department in the 1920's**

By VALDEMAR CARLSON

"WHAT IS YOUR MAJOR?" This question was put to me by the man in the Phillips Brooks House who, I had been told, would help me locate a room in my first year as a graduate student at Harvard University. I had just arrived in Cambridge after a long train ride from my home in the Middle West, eager to experience the educational and cultural advantages that Boston and Harvard University were expected to offer. I experienced a thrill of anticipation as I contemplated taking courses from professors whose books I had read, Taussig, Bullock, Carver.

But first I had to find a place to live. Of course I knew my major subject. "Economics," I said, pronouncing the first letter with a long E. My Middle Western accent must have grated on the ears of this New Englander, for he told me somewhat superciliously, "At Harvard we pronounce it *economics*."

After forty years the professors who were responsible for the formal part of my education in economics stand out clearly as distinct personalities. Also I recall, possibly not quite so distinctly, the intellectual stimulation of unusually able students who in discussion amplified and sharpened the issues presented in the classroom. Indeed, at least one of the professors may have made his most effective contribution by serving as a catalyst in stimulating discussion and argument outside of the classroom.

The clerk at the Phillips Brooks House who corrected my pronunciation of economics might perhaps have questioned my competence in passing judgment on the scholarly attainments of these professors. Is there any satisfactory means of evaluating the scholarship of the economists who

* Two professors who were my classmates at Harvard, Melvin de Chazeau, Cornell University, and Robert W. Harbeson, University of Illinois, read an early draft of the manuscript and made suggestions for changes. I am particularly indebted to Professor de Chazeau whose thoughtful comments and trenchant criticisms were invaluable in the preparation of the final draft.

taught at Harvard in the 1920's? What did their colleagues in other educational institutions think of them? If the members of a learned society elect as head of their association those men who are most outstanding, the Harvard department in this decade was indeed remarkable. Seven of the professors under whom I studied had been, were, or later became presidents of the American Economic Association.

The recognition given by the American Economic Association to these Harvard professors was not due to their contributions to micro and macro theory which in the subsequent two decades experienced a revolutionary development. Edward Chamberlin was writing his doctor's thesis in the 1920's, subsequently published in 1933 as *The Theory of Monopolistic Competition*. Chamberlin, however, was never elected president of the American Economic Association.

Harvard economists of this period made no contribution to the development of macro-theory, which later became known as the Keynesian revolution. In one course we read Keynes' *Monetary Reform*, but this book only impressed us as trenchant criticism of current policy with no suggestions of any alternative to orthodox theory. Keynes was of course well known in and outside of the field of economics. His enormously successful book, *The Economic Consequences of the Peace*, had established his reputation as a caustic critic and as a master of literary exposition and polemic. During the 1920's, the thrust of his attack was against the English ruling class who failed to realize that World War I had ended an era of Western civilization. Paraphrasing his own successful book, he criticized the folly of Britain's return to the gold standard at the old par under the title, "The Economic Consequences of Mr. Churchill" (Churchill was then chancellor of the exchequer). Later when the merit of Keynes' criticism became evident, this essay of the 1920's was republished in a volume called *Essays in Persuasion* in which he referred to his writings as the "croakings of a Cassandra." Keynes' influence, however, was only peripheral until in 1936 *The General Theory of Employment, Interest and Money* appeared.

The revolutionary changes that took place in economic theory in the subsequent decade did not manifest themselves at Harvard in the 1920's. Classical economics was dominant and its adequacy as a basis for policy was hardly ever questioned. And such had been the situation for several decades. A few years after I received the Ph.D. degree I compared my experiences with an economist who had been at Harvard at the turn of the century. His educational experiences resembled mine both as to courses and professors under whom he had studied.

In spite of their acceptance of classical theory these Harvard professors

varied in their attitude on public policy. This attitude makes possible a classification in a policy spectrum moving from left to right. Compared to the ideological and policy spread represented by the seating arrangement in a European parliament, the Harvard Economics Department had a relatively narrow band with a clustering toward the right. There was of course no Marxist on the faculty and the dominance of classical economics (including its Austrian branch) promoted a tendency to favor a policy of noninterference in the economy. On the basis of my recollection of what they said in class and from their publications the six professors whose personalities, teaching methods and ideological views are presented can be ranked as follows: William Z. Ripley, Frank W. Taussig, Edwin F. Gay, Allyn A. Young, Charles J. Bullock, and Thomas N. Carver.

I

William Z. Ripley

WILLIAM ZEBINA RIPLEY in the 1920's was probably better known outside the Harvard yard than any other professor in the department. Among the students who distinguished themselves in economic theory, however, he was held in low repute, and from what I observed they avoided taking his courses. One such would-be theoretical economist caustically remarked, "Why, he can't even draw a demand curve accurately." Whatever his theoretical limitations, he had established an enviable reputation as a writer, a consultant, and an authority on railroad consolidation. Early in his career he had written extensively on anthropology. Later he moved into the fields of railroads, trusts, and corporations, subjects he was teaching in the 1920's. *Main Street and Wall Street* appeared in 1927. It was a book severely critical of corporate practices, including the public utility holding company device which allowed a few insiders to exercise enormous power on a very narrow investment base. *Main Street and Wall Street* had a public impact comparable to a book that appeared some thirty years later, *The Affluent Society*, also written by a Harvard professor, John Kenneth Galbraith. Ripley's hope expressed in the preface that the book would "bring forth fruit in due season" was fully realized. Among these fruits was the investigation by a lawyer and by an economist into the contemporary control of American corporations. This study by Adolf Berle and Gardner Means was made public in the well-known book, *The Modern Corporation and Private Property*. Ripley's book was widely read and contributed to the public indignation about corporate malpractices which helped build up the emotional tension Congress

needed to pass the Securities and Exchange Commission Act and the Public Utility Holding Company Act. With the onslaught of the depression Ripley seemed in retrospect something of an intellectual prophet, and he was elected president of the American Economic Association.

II

Frank W. Taussig

LIKE RIPLEY, TAUSSIG also influenced public policy, but his impact was just a ripple compared to the splash made by the author of *Main Street and Wall Street*. Professor Taussig had devoted the scholarship of a lifetime to the tariff question, and so significant did President Wilson consider his contributions that he became the first chairman of the United States Tariff Commission. He was in Washington during the war, 1917–1919, but returned to Harvard thereafter to resume teaching his famous course, Ec. 11. Taussig was trained as a lawyer at the Harvard Law School shortly after the introduction of the case method of instruction and he utilized a teaching technique that combined something of both the procedures of a prosecuting attorney and those of the case system of instruction. He would assign a limited amount of reading in the leading authors of the classical and Austrian tradition, *e.g.*, Ricardo, Cairnes, Mill, Marshall, Böhm-Bawerk, and then ply the members of the class with questions.

Taussig's method forced a concentrated attention to a topic or problem that no lecturer in my classroom experience had ever been able to evoke. For me it was a valuable training in logical analysis. One of my fellow students, however, was less appreciative. He called Taussig a prosecuting attorney who just rattled and confused the particular student who was called upon to answer questions. Unlike a courtroom where the cross-examining lawyer can only call on the witness who has been sworn in, no student could relax because he might at any time be called upon to reason his way through some theoretical problem. Taussig's teaching had a dramatic quality that elicited my admiration. He had been teaching classical economics for over a quarter of a century, and it was unlikely that any student would say anything about the theories of Ricardo, Mill, or Marshall that he had not heard many times before. Yet each statement of the student was accepted enthusiastically as a fresh and original idea, which gave the neophyte a sense of importance. That the student might later be trapped by Taussig's penetrating queries and thus disclose his limited knowledge of facts or a confusion in his logic further emphasized the technique of a superior teacher.

Before he retired in the 1930's, Taussig himself was impressed by the

limitations imposed on him by his inadequate knowledge of mathematics and his consequent inability to utilize this important tool in economic analysis. Mathematics in the 1920's was accepted as a desirable tool, but even those professors who were competent in its use, specifically Allyn A. Young, did not consider it essential in economics. In more substantive areas Taussig indicated the inadequacy of classical economics. In his presidential address in 1904, "The Present Position of the Doctrine of Free Trade," he expressed his puzzlement over the stimulation afforded by war and found nothing in classical theory to explain the increase in output and entrepreneurial activity. He turned therefore to psychological and sociological speculation for the answer:

No one is more opposed than I am to all that goes with war and militarism. It is with reluctance that I bring myself to admit that the same spirit that leads to success in war, may lead to success in the arts of peace. Yet so it seems to be. Men being what they are, nothing rouses them so thoroughly as fighting. The temper which then pervades a community, communicates itself by imitation and emulation and shows itself in all the manifestations of its activity. A great war lifts the minds of men to large undertakings, and takes its place with other factors in stimulating the full exercise of the powers of every individual.¹

Keynes much later provided the theoretical explanation for prosperity during war compatible with the parameters of economics. But even twenty years after Taussig wrote this tribute to conflict, economic theory had not yet evolved a more satisfactory explanation than that he had given in the early part of the century.

Taussig's reputation as a teacher was based on his course in economic theory, but he also stimulated important work in international economics. Some of the important contributions in the theory of international trade in the decade following World War I were made by his students, among whom Bertil Ohlin, Jacob Viner, and John Williams are outstanding. For many years Taussig set the theoretical tone for the Economics Department. His textbook, *Principles of Economics*, first published in 1911, contained much factual, historical, and institutional material, but he confined himself in the classroom to analysis.

III

Edwin F. Gay

AT THE OPPOSITE END of the analytical institutional spectrum was Edwin Francis Gay, professor of economic history during the latter half of the

¹ Publication of the *American Economic Association*, Third Series, Vol. 6, 1905, p. 56.

decade. Gay had received his doctor's degree from the University of Berlin in 1902 after several years of study in Germany. His taste for facts was typically German; he was the scholar who digs and digs for facts and is never satiated. His course in economic history was studded with details. Most of his lectures left a mass of figures on the blackboard. He, like Ripley, was not highly regarded by those students whose interests were in theory (and they seemed at the time to predominate at Harvard). But economic history was required of all the candidates for the Ph.D. degree and graduate students enrolled in his course as they did not in any of Ripley's courses in Labor, Railroads, Trusts, and Corporations.

Gay had been the first dean of the Harvard School of Business Administration and served in that post from 1908 to 1919. After leaving the deanship at Harvard he was head of the *New York Evening Post* for a few years. But he returned to Harvard in 1924 to resume the teaching of economic history. He bristled with energy and I felt that he was the very stereotype of the American businessman. In 1929 he became president of the American Economic Association.

IV

Allyn A. Young

ALLYN A. YOUNG came to Harvard in 1919 after teaching in a number of American universities. He also served as chairman of the department at Stanford University from 1906-1911. Young never wished to stay for any length of time in any one university. He believed that the process of adjusting himself to new educational policies and colleagues would stimulate his imagination and broaden his knowledge. Shortly after he left Harvard for the London School of Economics he referred to himself as a member of the "American Peripatetic School of Economics." The invitation to join the faculty of the London School was an opportunity and a challenge that he could not refuse. He planned to stay there for three years and then return to Harvard, a prospect cut short by his untimely death after two years in London.

Before enrolling as a graduate student at Harvard I had never heard of Allyn A. Young, mainly, I suppose, because he published very little. It was not long before I realized, however, that Young was the most highly respected economics professor at Harvard. Under him a considerable number of the outstanding students wished to write their doctors' theses. His reputation as a scholar and as a teacher was well deserved. He possessed in rare degree the quality of intellectual rigor combined with tolerance for new ideas. As a discussion leader, Young was at the opposite

pole from Taussig. Taussig tolerated no half-formulated ideas in his pedagogical pursuit of developing the student's logical thinking. Young took the least glimmer of insight or understanding expressed by a student and clothed it with an amazing amount of significance. His students, when their theses were published in the late 1920's and 19230's, acknowledged in a perfunctory way his assistance. But many of the original ideas may well have come from Young, although, with the innate modesty that characterized this remarkable scholar, he did not take credit for originality in such monographs. In this respect he reversed the all-too-frequent practice of professors who utilize freely the research of their graduate students in their own publications and grant them only footnote acknowledgements.

Young occasionally gave formal lectures, but generally he chose not to do so. He was the Toscanini of the classroom, referring neither to outline nor notes while lecturing. He would often sit in front of the class with a recently published book from which he read excerpts as a background for analytical comments. His presentation was always informal. In Young, we were privileged to experience the thinking process of a great mind who shared his ideas with his students in an amazingly democratic manner.

V

Charles J. Bullock

CHARLES JESSE BULLOCK, in his intolerance for ideas other than his own, was at the opposite extreme. He was an emotional tory who reacted strongly against heterodoxy of even the mildest sort. His year's course in the history of economic thought was scheduled to terminate with John Stuart Mill, but he was likely to get no further than Thomas Aquinas. When I was a student in the course, he scheduled extra meetings in the spring in order to get through our perusal of Aristotle's *Politics*. He had started our investigation of economic thought with *The Works and Days* of Hesiod. Bullock was a militant advocate of classical education. To him, the decline in the teaching of Greek and Latin was evidence of the decay of American education. He despised John Dewey, and the heresies of Thorstein Veblen he considers anathema. The very mention of Veblen's name would send Bullock into a purple rage. In his introductory lecture Bullock compared the continuity of economic thought to the movement of a river which was enlarged by fresh water from springs and brooks until its purity was muddied by the effluvia and pollution discharged from Veblen's "glue factory." This reactionary professor had no sympathy for the poor and unfortunate people who seemed unable to support them-

selves. Social workers he grouped with "other second-story workers," and reformers were persons who on seeing something that was socially bad would say, "For God's sake, let's do something about this." Such people he called "Godsakers." At a later class meeting when Bullock mentioned a social problem which he probably considered insoluble, a particularly brash young man raised his hand and said, "Professor Bullock, I'm a Godsaker, what can we do about this?" Bullock's cheeks swelled out, his face turned purple, and glaring at the student, he retorted, "Godsakers will have short shrift in this class."

By his emotional outbursts Bullock converted no one to his reactionary position. He succeeded only in making himself appear ridiculous. Students who were amused by his emotional tirades could hardly believe that here was a scholar and a successful administrator. Bullock had written extensively in public finance and was a recognized authority on the subject. He was chairman of the Harvard University Committee of Economic Research, which prognosticated future business conditions. Its business barometer was one of the most important such services then available. It failed, of course, in diagnosing the economic ills of the 1920's and in recognizing the severity of the depression in the early 30's. But this failure the Harvard Committee shared with similar organizations. At any rate, the lack of adequate tools for the interpretation of economic data was no reflection on the administrative ability of Charles Jesse Bullock.

But he lacked a sense of responsibility in his teaching obligations, too often characteristic of the professors who devote major energies to research and administration and leave no time for the preparation of lectures. Bullock referred to notes which had been prepared many years before, and I am convinced that he did not even look at them before he came to the classroom. Having an intemperate, intolerant mind, he was unable to think clearly about current issues and merely vented his prejudices in highly emotional language.

But there must have been another side to Bullock. After having experienced in the classroom these emotional tirades, I talked with a student who was writing his thesis under Bullock's direction. The young man had the highest praise for the time and attention he was getting. Bullock insisted upon high standards of logical expression and English exposition.

VI

Thomas N. Carver

THOMAS NIXON CARVER was just as conservative as Bullock, but temperamentally the two men were poles apart. Carver engaged in no emotional

outbursts about "Godsakers" or the pollution caused by the heresies of Veblen, but by a process of deductive reasoning he would arrive at the judgment that both reformers and Veblen were fundamentally wrong. In arguments with Carver about controversial issues, the unwary student (and sometimes the wary as well) would at some point accept one of Carver's premises. Once in this trap, he was never permitted to deviate. By inexorable logic, he would be pinned to a judgment, and the socially minded critic would burn with inward rage when he found himself no longer in a position logically to defend his ideas.

A story which the late Heywood Broun, columnist, told about his erstwhile teacher, T. N. Carver, is probably apocryphal, but it accurately depicts Carver's systematic and logical approach to social questions, as well as his faith in private property and capitalism. Broun was an undergraduate at Harvard before World War I and as an underclassman evinced little or no interest in social problems. Then by happenstance he registered for a course taught by Carver, and whatever its title may have been, its purpose, according to Broun, was to prove the inadequacies of socialism or any other alternative to capitalism. As an honest logician and defender of the faith, Carver began his course by presenting the alleged merits of socialism. So effectively did he present the arguments that the undergraduate playboy, Heywood Broun, for the first time in his life, became interested in social problems and their potential solution. By the force of the fair-minded logic of his teacher Broun was converted to socialism. Carver, as Broun continues the story, had allowed about two months during which time he planned to demolish the arguments sustaining socialism and to build up an irrefutable case for capitalism. Just as Carver was shifting his expository gears to destroy the favorable image of socialism, the major league baseball season opened in Fenway Park. Broun's conflict between attending Carver's lecture or going to the baseball games was resolved in favor of the national sport. Heywood Broun then concludes his story by saying, "I remained a socialist for the rest of my life."

Carver's method both as a writer and as a teacher was to rely on deductive analysis and to use facts and figures only to bolster his argument. His book, *The Present Economic Revolution in the United States*, contains a good deal of statistical information and on the surface appears to break with his deductive method. The data, however, supported Carver's belief that the corporation, in creating a wide dispersion of stock ownership in the United States, was promoting the ideals of democracy. A chapter on "The Growing Financial Power of Laborers" argued that workers, through their substantial savings, a part of which was invested in corpo-

rate securities, could exercise considerable economic power. Toward the end of the book, which appeared just three years before the stock market crash, Carver optimistically concluded that, "Unless all signs fail, we are about to give the world the only great demonstration it has ever had of the practicability of the twin ideals of liberty and equality."

While Carver presented this rosy and optimistic picture, his colleague, W. Z. Ripley, gave an opposite interpretation of the corporate revolution. Widespread ownership of corporate securities, instead of dispersing power, according to the author of *Main Street and Wall Street*, brought about a separation of ownership and management. Carver believed the public ownership of corporate securities implemented the ideals of democracy. Ripley saw the intrusion of Main Street into corporate investment as a means of strengthening the irresponsible power of a few insiders. With the subsequent publication by Berle and Means of *The Modern Corporation and Private Property*, with disclosures of the Pecora Committee on irregularities, if not downright dishonesty, in the behavior of some corporate executives, and with the congressional passage of the Public Utility Holding Company Act and the Securities and Exchange Commission Act, Ripley seemed to have been proved right.

VII

Joseph Schumpeter

THE SIX PROFESSORS whose personalities have been briefly sketched were not the only teachers in their department. But they gave to Harvard in the 1920's its reputation in economics. In the 1930's and 1940's the teacher who added the greatest scholarly luster to the Harvard Economics Department was Joseph Schumpeter, but he did not join the faculty until 1931. However, he spent one year as a visiting professor (1927-28), during the first year Young was on leave at the London School of Economics. I audited the first semester of Schumpeter's course in theory which was largely an exposition of his book, later translated under the title *The Theory of Economic Development*. Listening to Schumpeter was an experience quite different from the informal presentation of the American professors who until that time had provided my classroom fare. Schumpeter was a brilliant lecturer. He had then and always retained his German accent, although he was never at a loss for English words. But after becoming accustomed to his accent one had no difficulty understanding him.

Schumpeter contributed some new elements to my education in economics. He had a passionate devotion to the possibilities of achieving

scientific objectivity in economics. Rather late in life he studied mathematics and he helped to organize and become the first president of the Econometric Society. He disliked the English classical economists, partly, I suspect, because they considered economics as a policy-oriented subject. Schumpeter's scorn of the welfare-oriented classical economists burst through his characterization of Alfred Marshall, "While I luff the old man, I can't stand his preaching."

Hearing a brilliant lecturer urge the desirability of making economics a science was a stimulating experience. More impressive for me, however, was listening to an author expound his imaginative and creative theory of economic development before it had been read by most American economists. Subsequently Schumpeter's book was translated by Redvers Opie, and American economists could then read what was the most outstanding theory of development within the framework of private enterprise. During the two decades that Schumpeter was at Harvard, until his death in 1950, his scholarly output was tremendous. It is a tribute to the open-mindedness of American economists, as well as to Schumpeter's own intellectual achievements, that he was elected president of the American Economic Association.

VIII

The Brains Trusters

IN THE 1920's Harvard lacked any considerable number of assistant and associate professors who could be expected to move into the places vacated by the economists who would retire in the next decade. One of the few teachers in this category was John H. Williams, who distinguished himself as an able lecturer and was popular among undergraduate and graduate students. Later he also was elected president of the American Economic Association. Wassily Leontief, who made his great contribution in input-output analysis, did not come to Harvard until 1931. Among the young instructors who received their doctorates in the 1920's and stayed in the department were Edward Chamberlin, Seymour Harris, and Edward Mason.

The static calm which pervaded the subject matter of the Economics Department in the 1920's might lead one to believe that Harvard-trained economists would not have been called to help Roosevelt shape the political contours of the New Deal. Not quite as many Harvard economists went to Washington in the New Deal period as Kennedy attracted there during the thousand days of the New Frontier. Yet a surprising number of them were called to Washington and there achieved distinction (in some

cases notoriety) in administration and policy-making. Among them, during the Roosevelt era, the names of Harry Dexter White, Gardner Means, and Lauchlin Currie stand out.

What explanation can be offered for the contribution of Harvard-trained economists to policy-making in Washington? To attribute the selection on the grounds of radical teaching, as conservatives are prone to do, is of course patent nonsense. The Harvard economists of the 1920's were conservative and did not advocate, with one exception, any of the social changes that took place in the 1930's. The one exception to the generally conservative temper that prevailed in the department was to be found in the writing and lectures of Professor Ripley. But the graduate students who later went to Washington, such as White and Currie, I believe, never took any of his courses. The old school tie may have helped determine the selection of advisers by Roosevelt and Kennedy since both of them had graduated from Harvard. My explanation, however, is different.

Trained brain power is always a scarce commodity, and particularly during a period of social change it is difficult to find people with the requisite ability and imagination to engineer institutional adjustments. In the 1920's there were not many first-class graduate schools and those that had an outstanding reputation tended to attract the more able students. It was because outstanding students were attracted to Harvard that so many of that university's economists played such an important role in helping to fashion the New Deal reforms.

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Rent Subsidy and Housing Satisfaction *The Case of Urban Renewal in Lubbock, Texas*

By CHARLES K. EDGLEY, W. G. STEGLICH, and WALTER J. CARTWRIGHT

ABSTRACT—Governmental programs proposing rental supplements for low-income families assume that social and economic conditions of these families may be improved by such subsidy. However, this assumption has not been adequately tested by social science research. Data presented here were gathered at an urban renewal relocation housing project in Lubbock, Texas, and suggest that when families who, before urban renewal, were self-sufficient in slum housing are forced into welfare situations because of rent subsidy programs, dissatisfaction with relocation facilities results. The data also indicate that dissatisfaction is correlated positively with the number of persons in the household, the age of residents, and socioeconomic status.

THE MUCH-DEBATED Federal Rent Subsidy Program, if final enactment comes, holds potential for a panoply of sociological research in housing. Prominent among these research possibilities are the problems related to the relocation of families displaced by urban renewal and other governmental actions. This program, long under fire from political conservatives, assumes that one method of improving the economic and social conditions of low-income families is to provide financial support for rental payments. This hypothesis, on which rests the fate of the entire program, is largely untested by social science research.¹ The purpose of this paper

¹ The most comprehensive of the few works on urban renewal which give more than simply a cursory treatment of the relocation problem are: Martin Anderson, *The Federal Bulldozer: A Critical Analysis of Urban Renewal* (Cambridge, Mass.: M.I.T. Press, 1964);

is to present data relative to dissatisfaction of tenants in a rent-subsidized program in Lubbock, Texas, a program designed to help low-income families displaced by the city's urban renewal program which began in 1960.

The essentials of the federal program and the local program on which this study is based are similar although the two differ in respect to the rationale for relocation housing. The federal program emphasizes the need for rental subsidy for *all* low-income families, whereas the local program centers on fulfilling the requirements of providing standard housing only for Negro families displaced by urban renewal and falling within the city's sphere of responsibility outlined under the provisions of urban renewal legislation.²

The objective of this study is to delineate social correlates of dissatisfaction among 160 Negro families in Green Fair Manor. This 236-unit apartment complex was built in 1965 to help relocate into standard housing those families and persons who had been displaced by the city's urban renewal program.

Green Fair Manor was selected as a study site for two reasons. First, rent payments are based on the occupant's ability to pay; consequently the important variable of subsidy could be introduced into the study.³ Secondly, and paramount to this paper, because of the subsidy arrangement, some families affected by urban renewal were forced to become welfare clients, even though they had been self-sustaining tenants in pre-urban renewal slum housing. The objectives of this study, then, are to discover answers to the following questions:

Charles Abrams, *The City Is the Frontier* (New York: Harper and Row, 1965); Harold Kaplan, *Urban Renewal Politics* (New York: Columbia University Press, 1963); Bernard J. Frieden, *The Future of Old Neighborhoods* (Cambridge, Mass.: M.I.T. Press, 1964); Robert C. Weaver, *The Urban Complex* (New York: Doubleday & Co., 1964); Albert Rose, *Regent Park: A Study in Slum Clearance* (Toronto: University of Toronto Press, 1958); Basil G. Zimmer, *Rebuilding Cities* (Chicago: Quadrangle Books, 1964); Martin Meyerson, et. al., *Housing, People, and Cities* (New York: McGraw-Hill Co., 1962).

² The Housing Act of 1949 marked the beginning of the role of the Federal Government in urban renewal and contains the following requirement: "That there are or are being provided, in the urban renewal area or in other areas not generally less desirable in regard to public utilities and public and commercial facilities and at rents or prices within the financial means of the families displaced from the urban renewal area, decent, safe, and sanitary dwellings equal in number to the number of and available to such displaced families and reasonably accessible to their places of employment." (Excerpt from U.S. *Statutes at Large*, Vol. LXIII, Part I, p. 417.)

³ City rent subsidy to occupants is based on a standard income and number of dependents scale applied in the following formula: (a) a two-person family can afford one-third of its income for rental expense; (b) three-, four-, five-, and six-person families can afford one-fourth of their incomes for rent; (c) larger families can afford one-fifth of their incomes for rental expense. In cases of extreme deprivation, no rental charge is assessed.

1. What is the relationship between rent subsidies and satisfaction with relocation facilities?
2. Do persons paying full rent costs feel more satisfied with relocation housing because of their better economic circumstances, or do they feel that subsidy should not be based on a family's ability to pay?
3. Is there a correlation between socioeconomic status and housing satisfaction?
4. Is there a correlation between the length of residence in a substandard home torn down by urban renewal and the family's satisfaction with new accommodations?
5. Is there any relationship between the number of persons living in a single dwelling unit and satisfaction?
6. Is satisfaction correlated to a significant degree with indicators of personal adjustment such as age, amount of education, and length of marriage?

I

Relocation and Urban Renewal

RELOCATION HAS BEEN DEFINED by the Federal Housing Administration as "the process by which a local public agency fulfills the statutory requirements that decent, safe, and sanitary dwellings within their financial means be made available to families displaced from urban renewal areas or because of other governmental action."⁴ The wording of the statute makes it explicit that relocation is more than the physical rehousing of displaced persons. Relocation, it says, must offer families an opportunity to eliminate the harmful social, psychological, and economic conditions associated with slum living. For purposes of this study, relocation is defined as "the involuntary movement or displacement of persons, usually associated with urban renewal, whose homes have been purchased, torn down, or otherwise made impossible for them to live in . . .".⁵

It is well known that this involuntary movement or displacement has most generally affected disadvantaged, minority group families who, for a variety of reasons, could not exercise much choice about their living arrangements.⁶ Statistical data from the Housing and Home Finance

⁴ Housing and Home Finance Agency, *Housing Definitions* (January, 1957), p. 29.

⁵ Dorothy S. Montgomery, "Relocation and Its Impact on Families," *Social Casework*, Vol. XLI, No. 8 (October, 1960), p. 402.

⁶ Harry W. Reynolds, Jr., "Population Displacement in Urban Renewal," *American Journal of Economics and Sociology*, Vol. 22, No. 1 (January, 1963), p. 116. This article is the result of a four-year study of relocation programs in 41 cities in the United States between the years 1955-59. By means of questionnaires, personal visits, and correspondence, the author amassed data on the status of relocation from urban renewal project sites, public housing and relocation, composition of relocated families, and rental charges after relocation.

Agency corroborate this statement. Of the 124,998 families displaced by urban renewal through December 31, 1961, some 64,424 were non-white.⁷ This high percentage of non-whites displaced by governmental programs of urban renewal and rehabilitation complicates the process of relocation, since these families frequently can be relocated only within certain areas of the city.

Lubbock, Texas, the site of this study, began its urban renewal planning in 1955. The project was completed in 1966. During the planning for an urban renewal program, city officials realized that the housing supply available at prices Negro families could afford to pay was inadequate. No workable solutions were offered by real estate interests, and plans were begun to construct a housing project to accommodate those Negro families who could not be lodged in privately owned dwellings. Several alternatives were rejected in reaching the decision to subsidize families on a welfare basis. The most frequently voiced of these was use of the Federal Low-Rent Public Housing Program, created by Congress in the Housing Act of 1937. While many urban renewal officials recognized the value of low-rent public housing over other types of accommodations, some real estate interests and politically conservative city officials were fearful of involvement in federal programs of rent assistance, and this suggestion for a housing resource was overruled.

Can families be expected to adjust to a situation in which they are evicted from their homes and forced to accept a status in which they are dependent on welfare when they were independent and self-supporting previously? A situation that arose because of an urban renewal program they did not want. What types of families are most satisfied and which are most dissatisfied with programs of subsidy and relocation housing? The answers to these and related questions were sought in this study.

II

A Sociological Theory of Housing

FOR PURPOSES OF THEORETICAL TREATMENT, relocation in this study is analyzed as a social problem. An adequate definition of the term "social problem" is difficult. In this study, however, Horton and Leslie's definition is accepted:

A social problem is a condition affecting a significant number of people

⁷ Housing and Home Finance Agency, Urban Renewal Administration, *Relocation from Urban Renewal Project Areas Through December, 1961*, p. 9.

in ways considered undesirable, about which it is felt something can be done through collective social action.⁸

It is obvious that in this case relocation is viewed as a social problem by the white majority whose responsibility it is to resettle persons involuntarily displaced by governmental action. (It may or may not be so viewed by the minority group.) In the field of housing, we may make the following theoretical postulates:

1. That housing is a dominant social value, and dissatisfaction with housing accommodations will reflect itself in other areas of a person's attitude toward life.⁹

2. That the quality of housing may not be related to satisfaction if personal and social relationships are assumed to be more important by members of a group, *i.e.*, that satisfaction or dissatisfaction with housing may be relative to the group under consideration. Some studies have shown that intricate networks of social relationships are to be found in slum and blighted areas which are the focus of urban renewal and relocation programs, and that destruction of these relationships by such programs can be a source of dissatisfaction in making the transition from slum to standard housing during the relocation process.¹⁰

If the assumption is correct that housing is a dominant social value, but one that varies within a group, then satisfaction with the same type of relocation accommodations will also vary according to social variables characteristic of persons within that group. In short, some types of people will be dissatisfied with any type of relocation housing, while others will demonstrate a high degree of satisfaction regardless of the housing quality.

With the unique variable of city subsidy, another theoretical relationship may be seen. Assuming that individual orientation toward housing is affected by the degree to which a person is integrated and adjusted to those segments of society closest to him, indicators of his attitude toward housing should vary according to such social integration. Since the amount of subsidy is based upon economic deprivation (income and need that is indicated by the number of children), the size of the subsidy indicates degree of failure to be self-sufficient. It follows that the amount of subsidy should be a good indicator of a person's general adjustment

⁸ Paul B. Horton and Gerald R. Leslie, *The Sociology of Social Problems* (New York: Appleton-Century Crofts, 1960), p. 4.

⁹ Lewis Wirth, "Housing as a Field of Sociological Research," *American Sociological Review*, Vol. 12, No. 2 (April, 1947), pp. 137-42.

¹⁰ Frieden, *op. cit.*, p. 123.

which will reflect itself in his satisfaction or dissatisfaction with housing accommodations. This conclusion leads us to the major hypothesis of this study, which may be stated briefly:

Persons receiving either complete or substantial rent subsidies will be *less* satisfied with relocation accommodations than those who are not forced into welfare and are paying full rent payments without benefit of subsidy.

This will be tested in terms of the null hypothesis:

There will be no correlation between the ranking of residents according to the amount of rent subsidies and the ranking of the same residents according to expressed level of dissatisfaction with relocation accommodations provided by the city.¹¹

III

Methodology

TO TEST THE HYPOTHESIS that residents receiving the largest amounts of subsidy from the city government would be most dissatisfied with relocation accommodations, the entire residency (177 families) was used as the universe. This was done because of the uniqueness of the project,¹² and because of better controls on the universe due to a close physical environment. Table I shows the sample distribution.

TABLE I
SAMPLE DISTRIBUTION OF RESIDENTS IN RELOCATION PROJECT

	Number	Per Cent of Total
Total number of residents in project at time of interview	177	100.0
Total number interviewed ^a	160	90.3
Respondent ill	4	2.2
Moved from project	1	—
Refused interview	2	1.1
Unable to locate	7	3.9
Out of town	3	1.6

^a "Total number interviewed" includes two respondents who had moved prior to the enumeration, but were found and interviewed in order to even the sample for purposes of division into ranked categories for statistical analysis.

¹¹ Since only 15 of the 160 families in the sample receive no subsidy whatsoever, the study centers on ranked categories of subsidy amounts with the assumption that those receiving the least rent subsidies will be more satisfied with relocation housing than those receiving a substantial portion of their monthly rental money through city welfare.

¹² As far as can be determined, Green Fair Manor is the only urban renewal relocation project in the United States to subsidize families displaced by urban renewal on a city-financed welfare basis.

Two primary techniques were used to collect data: a thorough analysis of project files on each family and the administration of an interview schedule. The project files yielded data on income, amount of subsidy, number of children, marital status, welfare record, length of residence in Lubbock and in home displaced by urban renewal, size of dwelling unit, rent, occupation, sex, age, and grade of all children in dwelling unit, age of husband and/or wife, and any record of misconduct (financial or behavioral) by the tenant.

An interview schedule was constructed primarily to ascertain a dissatisfaction score which was later correlated by ranked categories of dissatisfaction with social variables recorded on the data cards. The scale employed is an adaptation of the McVoy "Wants and Satisfaction Scale,"¹³ which measures dissatisfaction with housing and the realization of other wants. The scale contains 42 items regarding such indicators of dissatisfaction as shopping facilities, neighborhood, schools, work hours, income, utility charges, management of the project, space in the house, heating, and so on. Respondents were asked to rate each item questioned on a five-point scale: excellent, good, fair, poor, or very bad. Two columns were added for respondents who answered either that the item was not applicable to their situation or that the respondent did not wish to reply. Weights were given for checks in each column, and the total score divided by the number of items less the number of incomplete replies yielded an index which shows average dissatisfaction.

The hypotheses of this study were tested by correlating the dissatisfaction score attained from the interview schedule with social variables recorded on the data cards. The dissatisfaction scores were computed to four decimal places and grouped in eight rank-order classes from most dissatisfied to least. These ranks were then compared with the rank order of the average of each variable according to the Spearman Rank-Order Correlation.

IV

Correlation Analysis

THE DISSATISFACTION SCORE obtained from the adapted McVoy scale was compared with the following variables by the rank correlation test:¹⁴

1. Number of persons in a dwelling unit.
2. Average monthly utility charges.
3. Amount of rent paid prior to displacement by urban renewal.

¹³ Edgar C. McVoy, "A Method of Measuring the Satisfaction of Wants," *Sociometry*, Vol. 7, No. 1 (February, 1942), pp. 80-88.

¹⁴ A complete record of statistical findings is shown in Table II.

4. Percentage of subsidy received from city.
5. Age of household head.
6. Marital stability.
7. Socioeconomic status.
8. Education of family head.
9. Annual income.
10. Number of children in the family.
11. Length of residence in the city and in home displaced by urban renewal.

Of the eleven variables correlated with dissatisfaction, five proved to be statistically significant. These five are analyzed below.

The correlation between the percentage of subsidy and dissatisfaction substantiated the hypothesis that dissatisfaction with relocation would increase as the amount of subsidy increased. Table II shows a correlation coefficient of .952 between dissatisfaction and percentage of subsidy, a statistic which indicates a high degree of dissatisfaction among those families receiving the highest amounts of subsidy from the city government.

Several conclusions may be drawn from this high positive correlation. It is probable that the relationship is the result of a number of intervening variables. In addition to receiving high amounts of subsidy, the most dissatisfied groups also had the lowest yearly incomes (the median for the entire group was \$2334 annually) and the largest numbers of children. These factors together, and not merely the presence of subsidy, seem to increase dissatisfaction with the relocation facilities. In short, subsidy

TABLE II

STATISTICAL TABULATION FOR VARIABLES TESTED WITH SPEARMAN
RANK-ORDER CORRELATION

Variable Tested	Rho	Significance
Percentage of subsidy	.952	$P < .01$
Average monthly utility charges	.928	$P < .01$
Average number of persons in dwelling unit	.839	$P < .01$
Age of household head	.759	$P < .05$
Socioeconomic status	.738	$P < .05$
Years education completed	.595	N.S.
Average yearly income	.523	N.S.
Number of children in dwelling unit	.851	$P < .01$
Length of residence in city	.238	N.S.
Length of residence in home displaced by urban renewal	.333	N.S.
Number of years married	.357	N.S.

itself is not the only issue in dissatisfaction. Poor personal adjustment, family instability, economic problems, and overcrowding all work to make the families receiving the most subsidy the most discontented.

To test a number of these variables separately, and to show their relationship to dissatisfaction, correlations were run between the dissatisfaction scores and socioeconomic status, education, income, number of years married and age of household heads. Of these variables, only two, socioeconomic status and age, were related significantly to dissatisfaction.

Accurate measurement of socioeconomic status presented a problem because of the class structure of the Negro community which is so narrow that measurement using objective indices (*e.g.*, income, occupation, house type and area, religious affiliation, membership in voluntary associations, etc.) did not discriminate accurately between classes. As a corrective of this problem, the Warner Reputational Method of measuring status was used.¹⁵ The conceptual model used at the outset of the study assumed that persons of higher social status would be more satisfied with relocation facilities than persons belonging to a lower community stratum. Table II shows a .738 correlation between ranked categories of dissatisfaction and social status, a figure which corroborates the original conception. This finding is not surprising and further substantiates studies which have shown that lower-class persons demonstrate a higher degree of frustration which makes satisfaction lower, whether this satisfaction is interpreted in terms of housing or in terms of life fortunes generally.¹⁶

Expected correlations with income and number of years of education completed by the family head respectively did not prove to be statistically significant (see Table II). One explanation for the failure of these two indices of personal adjustment to correlate with dissatisfaction is the low median education completed by residents in the sample. The median number of years of education completed was six, and only 15 per cent of the sample had completed high school. The same phenomenon, a low median, may be cited as one reason for the insignificant relationship between income and dissatisfaction.

By age of household heads, the project residents tend to be evenly divided between the young and old. The modal age group is 36 to 50, 34 per cent of the household heads falling in this category. It was predicted that the youngest occupants would tend to be most dissatisfied

¹⁵ W. Lloyd Warner, Marchia Meeker, and Kenneth Eells, *Social Class in America* (New York: Harper & Bros., 1960), pp. 63-64.

¹⁶ See St. Clair Drake and Horace R. Cayton, *Black Metropolis* (New York: Harper & Bros., 1962), pp. 570-74.

because of the assumption that older age is associated with conservatism and adjustment to social situation, whereas youth tends to be associated with liberalism and militancy toward injustices, whether the injustices be discrimination, low income, or displacement by urban renewal interpreted as an inequity by the individual, and whether these injustices be real or imagined. The rank-order correlation by age yielded a coefficient of .759, which is statistically significant.

One of the clearest and most revealing correlations in this study was that between dissatisfaction and the number of persons in a dwelling unit. Two analyses were run with this variable. One correlated dissatisfaction with the total number of persons in a dwelling unit, and the other related dissatisfaction to the number of children. Both proved to be significantly related. The coefficient of correlation between dissatisfaction scores and number of persons was .839, and that between total number of children living in a household and satisfaction scores was .851. The data further indicated that the worst cases of economic deprivation were concentrated in the four-bedroom units which contained the largest families. Other studies have shown that housing adequacy tends to be related to the number of children within a dwelling unit. Whether overcrowding is the product of too many children, members of the extended family living in the dwelling, or guests, overcrowding leads to dissatisfaction with housing.¹⁷

The only other variable found to correlate positively with dissatisfaction scores was average utility charges paid by residents. The average monthly utility charges for families who expressed the highest levels of dissatisfaction with relocation housing was \$34.30, whereas those families who expressed the most satisfaction with accommodations paid only \$20.41 for utilities. The correlation coefficient for the two variables was .928.

Summary and Conclusions

THE OBJECTIVES OF THIS STUDY were to discover social correlates of dissatisfaction in an urban renewal relocation housing project in Lubbock, Texas. The study was undertaken partially to correct a sociological research omission. The lack of sociological studies dealing with satisfaction of relocation housing in urban renewal demonstrated that research on urban redevelopment had normally been approached from political and economical positions rather than purely sociological ones. These omissions are paradoxical since urban renewal officials have consistently regarded the social problems associated with slum clearance and urban

¹⁷ Cf. John H. Mabry, "Toward the Concept of Housing Adequacy," *Sociology and Social Research*, Vol. 44, No. 2 (November-December, 1950), p. 90.

rehabilitation as the most important ones facing the urban renewal program. The project site was chosen specifically because of its unique subsidy arrangement, an arrangement in which residents were placed into welfare situations where they had been self-sufficient (at least in regard to housing) prior to the advent of urban renewal. After constructing a scale to measure dissatisfaction with relocation facilities and administration of the scale, correlation analyses were run to discover significant relationships or patterns of dissatisfaction. Of the variables tested, five (amount of subsidy, socioeconomic status, number of persons and number of children in a dwelling unit, and average monthly cost of utilities) correlated positively at significant levels with dissatisfaction.

These conclusions are relevant for a number of governmental programs the aims of which are to build adequate housing and supply rent subsidies to families in need. To re-emphasize, the data gathered here point to the conclusion that rental subsidies are not enough to improve the lives of low-income groups. Programs must, instead, concentrate on relieving the major causes of economic deprivation—ignorance, inordinate numbers of children, and discrimination. The findings of this study suggest that these factors are causal in dissatisfaction and cannot be relieved merely by the presence of a subsidy program which frequently is not understood fully by its recipients. Through March, 1966, forty-six of the 210 families who had been admitted to occupancy at the study site were non-urban renewal residents who received no subsidy. Office records and data collected specifically for this study indicate that tenants who received no subsidy whatsoever had higher adjustment levels as compared to those receiving either full or partial subsidy. In planning for urban redevelopment, it may be well to listen to the words of T. S. Eliot:

When the Stranger says: "What is the
 meaning of this city?
Do you huddle close together because
 you love each other?"
What will you answer? "We all dwell
 together
To make money from each other?" or
 "This is a community?"

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Toward Free-World Partnership of Equals

ONE ELEMENT IN OUR BASIC POLICY is a new concentration on the task of building a widening partnership between ourselves, the other nations of the Northern Hemisphere, and the new nations to the south. The purpose here is to help draw the new nations into a true free-world partnership among equals, thus to strengthen even further the links which bind the free community together.

In our own hemisphere its basis is well established in the Alliance for Progress and the Organization of American States. For the Far East we see the Colombo Plan organization and the United Nations ECAFE [Economic Commission for the Far East] in the economic field; we see SEATO [Southeast Asia Treaty Organization] and ANZUS [Australia-New Zealand-United States] in the defense field. In the Middle East, countries with a common concern in the defense of this vital area have come together in CENTO [Central Treaty Organization]. In Africa we look to a variety of regional and subregional organizations whose activities may transcend the presently Balkanized structure of this emerging continent. And in many of these areas the British Commonwealth and the French Community join former colonies and metropolises on a new basis of mutual respect and dignity.

The same principle of common effort for common ends is reflected in a number of specialized agencies in which the problems facing the free community are effectively addressed. The International Bank and its affiliate, the International Development Association, is taking an effective lead in bringing free nations together in aid to less developed areas. The International Monetary Fund helps these areas through fiscal crises and helps to insure that the free community makes the most effective use of its total financial reserves. The General Agreement on Tariffs and Trade (GATT) is a useful forum for worldwide trade negotiation.

Over and above these specialized agencies is the organization that Cordell Hull did so much to create: the United Nations. Its labors open new vistas of progress and greater stability for all mankind. We shall continue to sustain those labors with utmost determination. We shall seek to strengthen the ways in which the UN contributes to economic development within the context of the United Nations Decade for Development. We will also make a particular effort to strengthen its peacekeeping machinery, including standby arrangements for the dispatch of UN observers or patrol forces to troubled areas. [From an address.]

DEAN RUSK

Discrimination Against Negro Homeowners in Property Tax Assessment*

By WILLIAM S. HENDON

Introduction

IN LOCAL TAX SYSTEMS where revenue demands are often more immediate than concern for equity, the collection of the levy on real property will take on the unique character of its administrators. Within given states, local property tax administration may differ considerably. The tax base may vary. Some cities may tax nothing but real estate. Some may tax assorted combinations of personal and real property. Others may vary the property tax base because they have revenues such as payroll taxes.

Altogether, the administration of the property tax is seldom consistent. This lack of internal consistency in the administration of the tax makes research difficult. The researcher is never certain that he can generalize from his results. What he must hope for are generalizations which can be presumed to be common to most communities, but he must determine that the circumstances are comparable before he can speak with authority.

I

The Hypothesis

KEEPING IN MIND the difficulty of generalizing on the subject, we move to a consideration of the property tax and its administration. Does the administration of the property tax cause unusual problems for minority groups? It is obvious that minority groups may suffer because of low incomes and that any tax burden may be a hardship. But this is not the topic of the present paper. A realistic hypothesis runs more in this direction: Assume that a minority group such as Negroes operate in a different kind of real estate market and that they are faced with higher prices on homes, higher rentals, higher credit charges, and more limited choice. Since these assumptions are generally valid—that is, higher costs for Negro housing than for the White counterpart—what happens in the case of the taxation of Negro owner-occupied houses? Does the tax department in the community, pursuing a course of assessing at “fair market value,” appraise Negro housing higher than comparable White housing? Or does the tax assessor in some sense subsidize the Negro homeowner by appraising the Negro home at what it “should” sell for

* The author would like to express his appreciation to Edward Olcott for his work in data collection and programming.

if it were not Negro-owned or if the market restrictions did not exist?

Our purpose is to investigate the question of Negro realty assessments and to compare them with assessments of comparable White-owned housing in order to determine if taxing officials "discriminate" against the Negro, as does the market, or whether the taxing officials "subsidize" or attempt to make more equitable the real property tax burden of the Negro homeowner. Later we will make some suggestions toward a solution of the problems raised.

II

The Method

TWO SAMPLES were drawn. The first population consisted of 120 houses owned by Negroes. These were all one-family residences and were homes that sold within the city limits of Fort Worth, Texas, between 1958 and 1963. Sample two consisted of 189 single-family residences also sold in Fort Worth between 1958 and 1963 but which were owned by Whites. Both samples were derived from tax records, deeds, records of real estate brokers, mortgage company records, newspapers, and title company records. Each sale was verified in order to insure that the stated sale price represented "fair market value." Data about each property were put on punch cards for analysis, and computations were run on the IBM 1620 computer at Texas Christian University.

III

Characteristics of the Sample

HOUSES IN BOTH SAMPLES sold for prices between \$5,000 and \$10,000 (Table 1). Although houses owned by Whites commonly represented

TABLE 1
SALE PRICES OF NEGRO-OWNED HOMES IN FORT WORTH, TEXAS
1958-1963

Sale Price	Number of Properties	Per Cent
\$5,001- 6,000	4	3.3
6,001- 7,000	15	12.5
7,001- 8,000	38	31.6
8,001- 9,000	29	24.1
9,001-10,000	34	28.3
Total	120	99.8
Mean = \$8,116		
Median = \$8,101		

SALE PRICES OF WHITE-OWNED PROPERTIES IN FORT WORTH, TEXAS
1958-1963

Sale Price	Number of Properties	Per Cent
\$5,001- 6,000	25	13.2
6,001- 7,000	30	15.8
7,001- 8,000	52	27.5
8,001- 9,000	42	22.2
9,001-10,000	40	21.1
Total	189	99.8

Mean = \$5,912

Median = \$7,870

Source: Computed from sample data.

higher prices, Negro owner-occupied houses above \$10,000 were not frequent enough to draw into an additional class. White owner-occupied houses were therefore selected from the same \$5,000 to \$10,000 class, so as to have two samples comparable in price range.

Although the mean sale price from the Negro properties was \$8,100, the mean sale price of White properties was only \$5,900. Median figures were closer; the median sale price for Negro properties was about \$8,100, while the median sale price for White properties was about \$7,900.

Negro owner-occupied homes are clustered in only about twelve subdivisions in the city. White properties, on the other hand, come from more than a hundred areas. Generally it is not possible for Negroes to purchase homes in White neighborhoods in Fort Worth, except in areas bordering the Negro sections of the community.

Negroes in Fort Worth are faced with a peculiar kind of problem in the purchase of homes. In the examination of records of more than 150 sales leading to the ultimate samples of 120, it was noted that not a single Negro home was sold on other than an F.H.A. basis. The Negro in Fort Worth does not have a conventional mortgage market available to him. This fact is reflected in the price range of the two samples in which the Negro properties averaged higher in price. When the condition of the homes in the samples was examined, 98 per cent of the homes owned by Negroes were listed by the city tax department as being in good condition, whereas the tax office listed only 71 per cent of the homes owned by Whites as being in good condition. This evidence that Negro-owned homes were in better condition is probably a reflection of the F.H.A. financing. Negroes as a rule cannot buy older homes in Fort Worth because they cannot get suitable financing. In addition, Negro

houses were generally newer than houses in the White sample (Table 2). This situation was also due to the F.H.A. mortgage requirements, older homes being more difficult to finance with an F.H.A. guarantee. One additional interesting point obtained from this information is that in Fort Worth, at least, if a Negro-occupied house is dilapidated or in less than good condition, the Negro is almost always a renter. Most well-kept housing in Negro areas of the community is owner-occupied.

TABLE 2
YEAR OF CONSTRUCTION OF IMPROVEMENTS OF
NEGRO-OWNED RESIDENTIAL PROPERTIES IN FORT WORTH, TEXAS

Year of Construction	Number of Properties
Before 1920	0
1920-1929	2
1930-1939	17
1940-1949	40
1950-1959	42
1960-1962	19
1963	0
Total	120

YEAR OF CONSTRUCTION OF IMPROVEMENTS OF
WHITE-OWNED RESIDENTIAL PROPERTIES IN FORT WORTH, TEXAS

Year of Construction	Number of Properties
Before 1920	22
1920-1929	28
1930-1939	8
1940-1949	66
1950-1959	64
1960-1962	1
1963	0
Total	189

Source: Computed from sample data.

IV

Assessments of Housing by Taxing Officials

ALL OF THE PROPERTIES in both samples had been revalued by the city tax office since 1960. The city of Fort Worth attempts to keep its real property assessments up to date. Thus there is little difficulty in gaining recent appraisal data for real property in the community.

Ratios of sale price to assessed value were calculated for the properties in both samples. Negro properties were generally assessed closer to sale

price than were White properties (Table 3). In every price class the ratio for Negro properties was considerably higher. On first impression, it would appear that Negro homeowners pay relatively more in taxes than do their White counterparts. A closer examination of these ratios reveals, however, that in the computation of the ratios, positive and negative variations are offsetting. As a measure of tax rate differential, the sales ratio therefore cannot be considered conclusive.

TABLE 3
RATIO OF ASSESSED VALUE TO SALE PRICE
OF NEGRO-OWNED RESIDENTIAL PROPERTIES, FORT WORTH, TEXAS
1958-1963

Sale Price	Ratio
\$5,001- 6,000	1.03
6,001- 7,000	.85
7,001- 8,000	.89
8,001- 9,000	.89
9,001-10,000	.93

RATIO OF ASSESSED VALUE TO SALE PRICE
OF WHITE-OWNED RESIDENTIAL PROPERTIES, FORT WORTH, TEXAS
1958-1963

Sale Price	Ratio
\$5,001- 6,000	.49
6,001- 7,000	.56
7,001- 8,000	.57
8,001- 9,000	.59
9,001-10,000	.74

Source: Computed from sample data.

Ratios of land value to sale price of the property were constructed, and land values of Negro housing were found to be less important relative to total sale price than were land values of White-owned houses (Table 4). The lesser land value among Negro-owned homes can be accounted for in several ways. To begin with, Negroes in the community are generally isolated into the more undesirable land masses. Negro neighborhoods in Fort Worth are for the most part broken up by railroad tracks, industrial and warehouse areas and run-down business tracts in older sections of town. Thus land values are commonly lower within zoning categories. For example, residential land values are lower in Negro areas than in the rest of the community. Also, commercially zoned properties in Negro areas suffer in the same manner.

Another reason is that Negroes are usually relegated to areas that were initially platted for other than residential uses. In some instances this means that community services, such as streets and sewage lines, are less than desirable in Negro neighborhoods. These situations all influence land values in Negro sections.

Ratios of assessed value to sale price were computed by year of construction (Table 5). In doing so an attempt was made to overcome the difficulties caused by the newness of Negro-owned properties. These sales ratios revealed that the Negro homeowner pays significantly more

TABLE 4
RATIO OF LAND VALUE AND IMPROVEMENT VALUE TO SALE PRICE
OF NEGRO-OWNED RESIDENTIAL PROPERTIES IN FORT WORTH, TEXAS
1958-1963
(By Levels of Sale Price)

Sale Price	Land Ratio	Improvement Ratio
\$5,001- 6,000	.21	.82
6,001- 7,000	.18	.66
7,001- 8,000	.20	.68
8,001- 9,000	.20	.69
9,001-10,000	.16	.77

RATIO OF LAND VALUE AND IMPROVEMENT VALUE TO SALE PRICE
OF WHITE-OWNED RESIDENTIAL PROPERTIES IN FORT WORTH, TEXAS
1958-1963
(By Levels of Sale Price)

Sale Price	Land Ratio	Improvement Ratio
\$5,001- 6,000	.16	.33
6,001- 7,000	.12	.44
7,001- 8,000	.13	.43
8,001- 9,000	.13	.46
9,001-10,000	.16	.58

Source: Computed from sample data.

taxes than his White counterpart. In each decade considered, the Negro property owner had his house appraised higher than did his White counterpart. Even considering newer homes built in the 1960's, the Negro homeowner had his house appraised at an average of 94 per cent of its sale price, while the White homeowner enjoyed a lower average assessment of 84 per cent of sale price. Certainly a part of this differential could be due to differences in the condition of properties, but a

considerable portion of the difference is undoubtedly due to higher valuations in themselves.

In order to clear up questions as to the comparable condition of the properties studied, a series of average deviations was constructed. The average deviation shows the variation of assessed value from sale price better than the sales ratio because it consists of absolute variation. In other words, the sales ratio can be misleading because positive and negative variations offset each other. Even in the cases where White

TABLE 5
RATIO OF ASSESSED VALUE TO SALE PRICE
OF NEGRO-OWNED RESIDENTIAL PROPERTIES, FORT WORTH, TEXAS
(By Decade of Construction)

Decade of Construction	Ratio
1920-1929	.698
1930-1939	.883
1940-1949	.862
1950-1959	.945
1960-1963	.940

RATIO OF ASSESSED VALUE TO SALE PRICE
OF WHITE-OWNED RESIDENTIAL PROPERTIES, FORT WORTH, TEXAS
(By Decade of Construction)

Decade of Construction	Ratio
1910-1919	.479
1920-1929	.623
1930-1939	.696
1940-1949	.628
1950-1959	.635
1960-1963	.837

Source: Computed from sample data.

properties were judged to be in good condition, the average deviation showed wider variation in the White-owned properties than in the Negro-owned properties in good condition (Table 6). The average deviation of Negro-owned properties in good condition was only about 9 per cent of the mean value of these properties, whereas White-owned properties in good condition showed variation to the extent that the average deviation was 38 per cent of the mean value of these properties. These figures reveal that Negro-owned properties are assessed at higher levels than are White-owned houses and are closer to market values.

V

Conclusions

THIS STUDY HAS demonstrated that discrimination exists in the property tax between White and Negro homeowners. The Negro homeowner pays more taxes per dollar of tax base than does his White counterpart. Ratios of assessed value to sales price among Negro properties are demonstratively higher than among properties owned by Whites. In addition, the average deviation measures reveal clearly that Negro-owned properties are assessed at higher levels than are White-owned properties.

TABLE 6
AVERAGE DEVIATION OF ASSESSED VALUE FROM SALE PRICE
OF NEGRO-OWNED RESIDENTIAL PROPERTIES IN FORT WORTH, TEXAS
1958-1963
(By Condition)

Condition	Standard Deviation	Average Deviation	Class Mean	Average Deviation As a Per Cent of Class Mean
Good	1450.	793.	8286.	9.
Fair	159.	80.	6625.	8.
Poor	—	—	—	—
Obsolete	—	—	—	—

AVERAGE DEVIATION OF ASSESSED VALUE FROM SALE PRICE
OF WHITE-OWNED RESIDENTIAL PROPERTIES IN FORT WORTH, TEXAS
1958-1963
(By Condition)

Condition	Standard Deviation	Average Deviation	Class Mean	Average Deviation As a Per Cent of Class Mean
Good	2489.	3053.	7985.	38.
Fair	2598.	2560.	8079.	31.
Poor	2687.	3041.	7424.	40.
Obsolete	1142.	2738.	6687.	40.

Source: Computed from sample data.

As a means of eliminating the discriminatory features of the property tax, this study proposes more comparative studies of assessments by communities in order to make the work of the appraisers in the field more consistent. If the assessments made in low income areas in general, and in non-White areas in particular, were evaluated and compared to other areas within the community, the process would likely improve. Certainly the average deviation measures developed in this paper and the sales ratios developed elsewhere could be of significant benefit.

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Work Among the Yugoslavs on the Mississippi Delta

By FRANK M. LOVRICH

IMMIGRANTS TO THE UNITED STATES have tended to find work in those industries in which opportunities for employment have been most numerous, as well as in those into which—because of the inability to speak English and the lack of finances and experience—they have best fitted. Most immigrants arrived on our shores totally unfamiliar with American conditions. The low standard of living and working conditions in many of their native countries, and their sometimes “child-like” eagerness to earn money, made them frequently willing to accept employment under conditions far below the general level.¹ American entrepreneurs welcomed them with open arms and usually gave the “new sons” of America the hardest, dirtiest, and poorest paying jobs in the industrial complex.² This was the price that most immigrants had to pay to gain entrance into the American industrial environment.

The Dalmatian Yugoslavs did not set or fit into this immigration pattern as did most of the South Slavs. For the Dalmatians arrived in America with skills they could utilize in their new environments. Most of them had emigrated earlier than the other Slavs and they knew exactly where they wanted to locate and where the economic opportunities were most fruitful. Their employment patterns demonstrated some exceptional and unique features which require elaboration.

I

Dalmatian Employment Patterns in the South

FOR MANY CENTURIES the Yugoslavs from Dalmatia have been known throughout the length and breadth of the world as excellent mariners, sailors, and shipbuilders. They were the first Yugoslavian immigrants to America and they continued to follow their European customs in all industries related to the sea. Some of them continued to follow the sea, hiring themselves out as crew members of American ships, others obtaining employment on vessels and barges that traversed inland American waterways.

¹ Oscar Handlin, ed., *Immigration as a Factor in American History* (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1959), pp. 42-75.

² *Ibid.*

The Dalmatians, who began to settle in Louisiana in the 1820's,³ started the development of the oyster industry and the construction of Gulf-located fisheries. The origin and growth of the Yugoslavian settlement in Louisiana is vividly portrayed by Lucien Burman, who is well known for his earthy, humorous novels depicting life on the Mississippi and other rivers.

... a Dalmatian fisherman, weary of his beautiful but troubled land, came to America and chanced to reach the region where we are now traveling (Mississippi Delta). So cursed was the country with mosquitoes ... so hostile was it in every way to humanity that no one would remain except the wandering hunter or hardiest Cajun. But the newly arrived fisherman was accustomed to hostility and difficulty. Day and night he worked without resting. Oyster and shrimp were plentiful and after a long time his long-empty pockets were filled with money. Other Dalmatian men came to join him. Soon their wives followed, and their children, and then pretty girls for their sons to marry. They all thrived in the new country for they were all expert fisherman and knew the ways of the water. And some of them began settling on the shores where they could grow oranges ... and ferment the fragrant orange wine (and orange brandy). They were a gay, happy people, and they brought their gaiety with them, and their legends and superstitions. And to the rare whites and Negroes who lived along the banks, they became known simply as the "Austrians" (or Takos).⁴

The Dalmatians began on a small scale, gradually expanded their interests until today they not only own their own fleets of oyster luggers and fishing boats, but also canneries as well. Success in the oyster industry on the Delta gave rise to other business enterprises. Soon wholesale oyster houses and marine stores emerged, located in and around Buras and New Orleans in Louisiana, and in Biloxi, Mississippi. They cater to both Yugoslav and non-Yugoslav fishermen in the area. Enterprising Dalmatians opened grocery stores and were very successful in the restaurant business. There are over twenty-five restaurants in the New Orleans and Delta area owned by Yugoslavs.⁵

Businessmen of various types are found in New Orleans and the area of Dalmatian concentration south of the city. These include hotel

³ This date is taken from the minutes of the Sjedinjeno Slovinsko Društvo od Dobrocinstva od New Orleans (The United Slavonian Benevolent Association of New Orleans).

⁴ Lucien Burman, "River's End," *Woman's Home Companion*, No. LXVII, August, 1940, p. 53. The term "tako" means "so, so" in Serbo-Croatian. When the natives would meet a Dalmatian and ask him how things were, he would answer "tako, tako"; hence the nickname, "Takos."

⁵ From the writer's census survey and from the files of the United Slavonian Benevolent Association.

owners, storekeepers, loan and real estate operators, druggists, truckers, and tugboat operators. Over twenty taverns in the area are owned and operated by Dalmatians. The range of occupational choice increases in the areas adjacent to the Gulf.⁶

II

The Oyster and the Orange

TODAY AS IN THE PAST, most of the Yugoslavs in the Delta depend upon the land and the sea for their living. From the sea they cultivate and harvest the oyster, and from the land the Louisiana orange. Of the two, oyster farming is the more important. It is not only a distinctive form of work with the Dalmatians but a unique mode of life. It is in many respects the central element around which all their activities revolve. The oyster holdings are leased from the parish and they average forty-nine acres in size. Over one thousand Yugoslavs are engaged in some way in the culture of the oyster.⁷

Only a small number of Yugoslavs who entered the United States selected agriculture as an occupation. The great majority of these who did go into farming were Slovenes who are located chiefly in the Great Lakes region.⁸ Dalmatian settlers did, however, go into fruit growing in a big way, particularly in California where they established themselves in the apple and grape industries.⁹ Jack London, in his classic, *Valley of the Moon*, described the Parajaro Valley of California as an agricultural paradise, referring to the area as "New Dalmatia," and praised the Dalmatians for their industry, skill, and thrift.¹⁰ Other Dalmatians in California settled in the Santa Clara Valley. Here they developed a flourishing and lucrative prune and apricot industry. Further south, near Fresno, the Dalmatians devoted their energies and interests to the grape and raisin industries, and in the Senora and Sacramento valleys they turned their talents chiefly to the cultivation of pears.¹¹

⁶ *Ibid.*

⁷ This information was secured from Mr. Lyle S. St. Amant, Chief Marine Biologist for the Louisiana Wild Life and Fisheries Commission.

⁸ Gerald G. Govorchin, *Americans from Yugoslavia* (Gainesville: University of Florida Press, 1961), p. 38.

⁹ Among the Dalmatians in California, the names of Mark Rabasa and Steve Mitrovich stand out. Rabasa introduced the apple industry into Northern California in the 1870's and Mitrovich gave a strong impetus to fig growing by importing Dalmatian brands into the region in the 1880's. See Louis Adamic, *A Nation of Nations* (New York: Harper and Brothers, 1945), p. 239.

¹⁰ Jack London, *Valley of the Moon* (New York: Grosset and Dunlap, 1913), p. 363.

¹¹ *The Yugoslavs in the United States of America* (Yugoslav Section of America's Making, Inc., New York, 1921), p. 27.

In Louisiana it was the orange. The fertile Delta, enriched by topsoil brought down and deposited by the Mississippi River over a long period of time, can produce three crops a year. Some three hundred Dalmatians are successfully and profitably growing about five thousand acres of citrus fruits on the west bank of the Mississippi River.¹² Credit for the present position of the orange industry goes to the Dalmatians who, a few decades ago, bought several thousand acres of fertile land and in a few years of hard work and wise management developed the orange industry to the high level it enjoys today. In the Delta area, of approximately 195,128 trees, 153,921 are of fruit-bearing age. In 1959, 198,632 field boxes of oranges were harvested in Plaquemines Parish.¹³ Most of the Dalmatian holdings are small family-type orchards with twelve acres or less.¹⁴ Several of the Dalmatians have established family wineries which produce delicious orange wine and brandy for local and state-wide consumption.

While the basis of the Dalmatian economy in the Delta has been a mixture of oyster farming and orange growing, families usually maintain some livestock on their holdings, especially swine, sheep, goats, and poultry. Most of these are kept for home consumption and are held in readiness for the periodic community get-togethers and weddings. The raising and care of these animals has been mainly left to the women and children since the men are continually occupied in work at their oyster beds.

Dalmatian beekeepers make a tidy profit selling their produce to housewives in the area. Honey is used for many purposes by the Yugoslavs both in times of health and sickness. A majority of the Dalmatian households cultivate a vegetable garden, again chiefly for home consumption. But in recent years more and more have been purchasing many of these items in the markets. Vegetables grown include peppers, garlic, onion, cabbage, snap beans, tomatoes, carrots, cucumbers, peas, scallions, cauliflower, kale, eggplant, and radishes. Vine plants, including beans, pumpkins, squash, and watermelons are commonly planted between the rows in the vegetable patch. Most families also have an orchard near

¹² Information secured from interviews with members of the Orange Growers' Association of Plaquemines Parish, Louisiana. Other data on file with writer.

¹³ United States Department of Commerce: Bureau of the Census, *United States Census of Agriculture; 1959, Louisiana*, (Washington, D. C.: Government Printing Office, 1961), pp. 246-47.

¹⁴ *Ibid.*

the house with apple, peach, pear, plum, fig, and pecan trees. *Pekmez*, a thick prune jam, is prepared in most households and a small amount of fruits goes into *slatko*, the sweet preserves traditionally served to guests.

III

Oyster Cultivation

THE INNOCUOUS OYSTER which can neither fight nor run has somehow taken its place with the Great in the recorded pages of history. A glance at historical records indicates that the Roman emperors had fresh oysters transported to their banquet tables packed in bags of snow. The historian Pliny tells us that as early as 95 B.C. one Sergius Orata became the first man to cultivate oysters by growing them on the bottom of Lake Lucinus.¹⁵ Other Roman writers, Horace, Seneca, and Cicero, were loud in their praise of the virtues and flavors of oysters in their ancient writings. When the Roman Legions conquered England they established their camps near oyster-producing areas.¹⁶

In the seventeenth century, the French historian, Antoine Simon Le Page Du Pratz, gives an account of the excellence of Louisiana oysters he found on the Delta. There he devoted sixteen years of his life scouting the wilderness of the state and gathering material for his famous *Histoire de la Louisiana*, which was published in 1734. On his initial encounter with the now famous Louisiana oyster, Du Pratz wrote:

In the lake of St. Louis (Pontchartrain) about two leagues from New Orleans, the waters of which have communications with the sea and are somewhat brackish, are found several sorts of both sea fish and fresh water fish . . . Near the lake, when we pass by the outlets to the sea, and continue along the coasts, we meet with small oysters, in great abundance, that are very well tasted. On the other land, when we quit the lake by another lake which communicates with one of the mouths of the river, we meet with oysters four or five inches broad, and six or seven long. These large oysters eat best fried, having hardly any saltines, but in other respects are large and delicate.¹⁷

The Dalmatians discovered very early that the region around the Mississippi Delta was well adapted for the cultivation of oysters. On the natural

¹⁵ Ednard Waldo, "The Louisiana Oyster Story," reprinted from the *Louisiana Conservationist*, November, 1957. Published by the Education and Publicity Division of the Louisiana Wild Life and Fisheries Commission, New Orleans, Louisiana.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

reefs in the endless bays and inlets they found the oysters growing wild along the shores, but no one had attempted cultivating them for market. The Yugoslavs saw the possibilities and one of their number, Luke Jurisich, is credited with being the first to actively cultivate oysters. He started in Bayou Cook during the Civil War and initiated an industry the income from which runs into the millions of dollars and has meant prosperity to thousands of Dalmatians on the Delta.¹⁸

The cultivation of the Louisiana oyster entails an amazing amount of hard manual labor involving many intricate steps. Under natural conditions oysters are found in brackish waters in depths ranging from halfway between tidemarks to forty to fifty feet. They are well adapted to withstand considerable fluctuations in temperature and salinity of water.¹⁹

When a Yugoslav selects a location for oyster farming the foremost requirements are a protected area of hard or semi-hard, but not shifting, bottom of moderate depth where water changes regularly with the tide. The area selected must be free from pollution and must contain an abundant supply of food to feed the oysters. After selecting the location of his fields he must prepare the bottom by dredging and clearing away any old shells that have collected and attempt to eradicate the numerous enemies of the oyster. The Yugoslav then obtains empty oyster shells and transports them carefully to the breeding grounds²⁰ where they are scattered indiscriminately over the bottom. This is done to prevent overcrowding and malnutrition.

The oyster farmer then takes his lugger out to sea to fish "seed" oysters. These are obtained from the thousands of natural oyster reefs that lie off the Louisiana coast.²¹ The seed oysters are dredged up by machinery. It usually takes two or three days to transport them back to

¹⁸ Information secured from interviews with older members of the Yugoslavian colonies on the Delta. Interviews on file with the writer.

¹⁹ The writer is indebted to numerous oysters farmers who spent a great amount of time explaining oyster cultivation to him.

²⁰ Oysters usually start life as males, change to females, then possibly back to males and so on. The process is known as *protandric hermaphroditism*. A spawning oyster can be definitely identified as a male or female only after microscopic examination of the gonad—sex-producing organ.

²¹ On the east side of the Mississippi River there are thousands of acres of these natural reefs which are protected by legislation forbidding any fishing during the reproductive season, which takes place during the summer.

the bedding grounds. The seed oysters are then deposited and reproduction takes place.²² The bivalves "spat," "spawn," and "set" (attach themselves to some hard object, usually the empty shells that the farmer deposited).²³

The young "spat" can only attach itself to a clean surface and after attachment it can be easily smothered by drifting sediments. For close to two years the oysters remain in the bedding grounds and feed or "fatten" up.²⁴ Then the crop is gathered and the very small oysters are rebudded on the same ground. The larger oysters are carried to a prepared bedding ground nearer to the seas where they may fatten some more and where they acquire their delicate flavor. After a period ranging from a week to two months, the larger oysters are "tonged" up again, to be taken to clean bedding grounds, usually located close to the farmer's oyster camp. Here they are bedded together, so as to permit rapid loading for shipment. Several days before the freight lugger arrives from the oyster association, they are tonged up again, measured carefully in a standard metal basket, and dumped into 1½-bushel oyster sacks.

Oysters cultivated by Dalmatian fishermen fall into three classifications: steam canned, raw shop, and counter stock. The steam canned oysters are dredged from the natural reefs of Louisiana (these reefs are not leased) by boats owned by the canneries or by independent fishermen who have contracted with the canneries. The oysters are then transported to the canneries where they are opened under steam pressure. The

²² The Louisiana oyster can be found breeding from April until October and in isolated cases even during the winter months. This is why the breeding oysters are called "milky," because of the milky-looking fluid they exude at that time. The milk of the female is composed of millions of minute eggs; that of the male an incalculable number of extremely minute spermatozoa. The milk is cast into the water where the sperm of the male drifts or swims to the egg and penetrates it. This act of fertilization begins the cycle of oyster life.

²³ After fertilization takes place the egg divides again and again, forming a ball of many tiny cells. Within a few hours, small vibrating hairs called "cilia" appear on the young oyster. With the aid of the cilia the oyster keeps itself suspended while being drifted about by the winds and currents. The embryo eventually develops a pair of tiny shells. These grow larger and heavier, and finally the young "spat" drops to the sea bottom and attaches itself and finally gives up forever its mobility.

²⁴ The oyster is unable to go in search of food. Nature has equipped it in such a way that it is able to obtain its food from the water in its proximity. Cells living in the siphon and gullet of the oyster are equipped with cilia which beat and create water currents that carry microscopic floating plants to it and these serve as its principal food. A single oyster, feeding at a good rate, may pump water through its shell cavity at the rate of 50 gallons a day.

meats are removed and placed in cans and are then processed.²⁵

Raw shop oysters require a great deal of cultivation. These are the oysters that are brought by independent Yugoslavian growers to the processing houses, where they are removed from the shells and shipped in containers under constant refrigeration to all parts of the United States. The shop oysters are usually taken from the natural reefs, cleansed, separated, and placed on bedding grounds leased from the state.²⁶ In the bedding areas they become better shaped and fattened. They are then taken to the packing houses, opened, packed in containers, and shipped. There are as many as twelve and fifteen operations involved in the handling of raw shop oysters.

The counter stock oysters are of the highest grade, the most carefully cultivated oysters that are served on half-shell at the oyster counters in bars and in restaurants throughout the South and elsewhere. The counter stock oysters bring the highest prices²⁷ to the seller.

Oyster farming, like the other types of farming, is a precarious undertaking. The oyster has many enemies, natural, and man-made. The Yugoslav farmer has to cope with the conch (*Thais florindana*) or boring snail which attaches itself to the oyster, bores a hole through its shell, inserts its proboscis, and extracts the meat. This predator must have a high-salinity water in which to live. This factor has saved many oyster beds from total ruin.

The saltwater drum causes much damage on the bedding grounds by crushing the oysters and devouring the meat. These fish congregate in large schools and some of them weigh as much as fifty to sixty pounds. A bedding ground at the mercy of these voracious eaters may be destroyed in a single night. Algae and weeds often foul up the shells of

²⁵ Many of the oysters for steam canning are provided for long in advance by shell planting which is carried on by the factories under the supervision of the Wild Life and Fisheries Commission, which requires that the factories bed specified numbers of barrels of shells. The young oysters attach themselves to these shells and in about two years grow large enough to be brought to the factories.

²⁶ There are 486 oyster leaseholds in Plaquemines Parish, Louisiana and over 1500 persons are actively engaged in the culture of oysters. The 486 leaseholders have under lease 23,822 acres of water bottom or approximately 30 per cent of all leased land in the state. Information obtained from Mr. Lyle St. Amat, Chief Marine Biologist for the Louisiana Wild Life and Fisheries Commission.

²⁷ Total oyster production in Louisiana averages between 800,000 and 1,000,000 barrels annually and may be converted to pounds at the rate of 13.13 pounds per barrel. Information obtained from Mr. Lyle St. Amat.

oysters, and boring clams and boring sponges also take their toll by drilling the oyster shell, making it brittle and susceptible to destruction.

The greatest natural hazard to oysters is the *Dermocystidium* (*Marinum*) *marinum*, a water-borne parasitic fungus organism.²⁸ This parasite attacks the oyster during the summer months and is devastating to an oyster bed.

Other hazards of oyster farming are the normal vagrancies of the water, hydrographic variables, pollution, and the general effects of industrial expansion in the area. Pollution resulting from industrial wastes leaves an oil taste in the oyster if indeed it does not kill it.²⁹ In general, industrial firms on the Delta have abided by stream control regulations limiting the discharge of industrial waste products into state waters.

Perhaps the most aggravating hazards are the periodic seismic operations that are carried on by the oil companies in the area. In testing for oil, seismic teams explode dynamite charges and then chart the waves to determine whether or not an oil pool is nearby. Captain George Vujenovic, a veteran oyster grower, put up with it for several months, but then his patience came to an end and the following event transpired:

When testing for oil one of the leading oil companies shot some dynamite around Captain George's holdings and ruined some of the bedding oysters. He complained to the workers but to no avail. Finally, he went to New Orleans to see the big bosses and deliver his complaint in person. What possible damage could a few ounces of dynamite do to oysters that are protected by thick shells? they asked him after he had explained his grievances to them. He realized that mere words would not verify his argument so he walked to a nearby desk where a stenographer was busily typing. He lifted her desk from the floor and abruptly let it crash back to the floor. Stunned, the secretary could not continue her work for some time. "Gentlemen," he explained, "see how I scared her? Your dynamite does the same to my oysters." From then on dynamiting went on less frequently around the oyster holdings and never on or around Captain George's reefs.³⁰

²⁸ Experiment station scientists pointed out that the presence of this fungus was first noted in the late 1940's but examination of museum specimens indicated that it was present in Louisiana oysters as early as 1928. The disease seems to be exclusive in the oyster and is not transferable or harmful to humans. *D. Marinum* has increased as industrial development in the Gulf has expanded. Up to this writing the experts can give no satisfactory answer to its current presence and destructiveness.

²⁹ The basic cause of oil taste is the contamination of leases with oil emulsion-based drilling muds which have been lost overboard in oil-drilling operations.

³⁰ The above story was related to the writer by several Yugoslavs residing in New Orleans. The interview is on file with the writer.

IV

The Agricultural Cycle

Spring

For a people who live intimately with their oyster lands and orchards and are completely dependent upon them for existence, the yearly cycle of oysters, citrus, and light agricultural duties form a type of orbit in which all life revolves. The Louisiana Yugoslavs are constantly attuned to the changing seasons.

Early March is the time they prepare their home gardens. In the vegetable patch they plant onions, scallions, carrots, radishes, and garlic, to be ready by early summer. Plowing is usually done by the men, who push a manual plow before them. But it is not uncommon to see a female performing this chore. Some of the more acculturated Yugoslavs do their plowing with gasoline roto-tillers. Men and women share jointly in the seeding which follows plowing. Then the grape vineyards are attended to. They must be hoed and trimmed and new vines must be set out. The orange groves receive extra doses of fertilizer during this phase of the cycle.

All able-bodied members of the household are intensely occupied in the gardening, orchards, or oyster beds, and the care of livestock (if any) falls to the very young or the very old. During the month of March activities may be continually interrupted by unpredictable rains.

With the arrival of April, and better weather, the tempo of work increases. Other vegetables such as snap beans, tomatoes, and cabbage are planted. Again the vineyards are dug. Gardens require more and more work. The men make continual trips out to the oyster beds in preparation for the harvest which takes place before June. All in all, spring is a busy season and one of great labor. At times individual households have insufficient man power to do all the work. Then *poza jmica*, loaning of labor, is sometimes arranged. Neighbors and relatives go to help, and in return the recipient (or adult member of his household) agrees to return the favor to each helper. In late May and June the men harvest the oyster crop after spending weeks at a time at the oyster camps. They must also trap the conches who deposit their eggs during this season of the year. Stakes, with palmetto leaves attached, are driven into the bed bottom. The conches climb these stakes in large numbers and lay their eggs on them. The fishermen pass by at intervals and remove both the conches and eggs which are thrown on the dry shore to die.

Summer

During the summer the garden vegetables mature, and fresh fruits and vegetables are abundant throughout the community. Surpluses are sent to friends and relatives in New Orleans. When work around the house is finished, many women join their husbands and sons at the oyster beds. Orange groves are again fertilized and thoroughly cleaned and pruned. The Yugoslavs spend hour after hour with their orange trees. Such perseverance in the groves amazes their non-Yugoslavian neighbors. One Yugoslav said the following about their "religious" devotion to their trees:

We always give some of our crop money back to the trees that earned it. They then will work harder for you. Hoe them well, thoroughly. Clip off the dead wood regularly, just as you must trim you own hair and nails. Give the trees a relief from the dead wood that they are trying to throw off. Spray them carefully. Up high and down low. Every leaf wet. Once in winter after breaking your fruit, and again when the baby fruit takes hold in summer. But hoe them well. Not too deeply but thoroughly. Give them your big back muscles . . . right up to the trunk. It's good for sweetening out your ground, letting in air to the baby roots, keeping off alligator grass. There's nothing like the hoe.³¹

A talk with a local experiment station agent about the Yugoslavs and their orange groves resulted in the following observations:

It's intensive cultivation that does the trick . . . it's not a case of having a whole lot of acres, but of how much they can get out of one acre. They have a natural way with oranges. I would call it a gift. They know trees like a horseman knows horses. Each tree is just as much an individual to them as a relative would be to me. They know every tree, its whole life history, everything that has ever happened to it, its every idiosyncrasy. They have their feelings on its pulse. They can look at a tree in bloom and tell how many boxes it will pack, and not only that . . . they'll know each individual orange, and they pick it tenderly, with love, never hurting it, and pack it and ship it with love, and when it arrives at market, it isn't bruised nor rotten, and it brings top prices. What do they do with their money . . . spend it . . . hell no . . . they are too frugal for that . . . they invest it in more land and more trees. These Takos have learned in a hard school of experience . . . that's why they beat out the non-Yugoslavs.³²

In the meantime, golden *dinje* melons (cantaloupes or mushmelons) and

³¹ Interview with a first-generation Yugoslav. Interview on file with the writer.

³² Interview on file with the writer.

orange and pink watermelons have ripened on the vines. Bean vines, cut and stacked to dry the month before, are spread on the ground and are assaulted with long sticks to burst the pods. The white beans that are extracted are picked up and packed for the winter months ahead.

Autumn

The hot, humid summer days eventually give away to fall. Attention is now directed to the plum trees and grape vineyards. Picking plums is relatively easy work and all the able members of a family join in the harvesting. Some of the plums are used to make brandy or *rakiya* (whiskey).

Another pleasant task is grape-picking, and this work is also a family affair. Clusters of grapes are carefully cut and placed tenderly in boxes which are then carted home where the different varieties of grapes are sorted. Delicious wine is made from most of the grapes.

During this season of the year it is a common practice to fatten up a lamb or swine, for the future get-togethers and other festive occasions. The hardest work of the autumn season consists of the bedding of the oysters. The Yugoslav oyster farmer must prepare his bottoms, distribute empty shells, and sink underwater fences of galvanized wire mesh strong enough to keep out the large fish and especially the saltwater drums.

Winter

The chief job during the winter is to harvest the oranges. This takes place from January to February. Another task is the planting of young fruit trees. After this is accomplished, the men turn their attention to beaching and repairing their boats and to various and sundry repairs that are needed at the oyster camps.

The older women keep busy also. They crochet, knit, embroider—there is always something to do. Pleasures of the season include the joyful Christmas customs, and leisure time for visiting and gossiping at home or with friends and relatives in New Orleans and in Biloxi. By March people are once more ready to start cultivating their vegetable gardens. The cycle is again put into motion.

Among the Yugoslavs, there are only a few jobs where children do not help their parents, or wives their husbands. These joint activities run the

gamut from oystering, orange cultivation, to business enterprises. During a harvest season additional help is recruited by those Dalmatians who have large orange groves. In recent years some non-Yugoslavs have been hired as pickers. Some non-Yugoslavs have also been hired in oystering, especially during the bedding and harvesting periods. Anywhere from two to five men may be hired and receive room, board, and a wage. But if possible the men hired are Yugoslavs (many are recent arrivals to the community or young men who are saving money to invest later in oyster holdings of their own) who are proficient in the various skills of oyster farming and who demand and receive excellent reimbursement for their labor.

Much of the buying is also carried on during the winter months. Salesmen, merchants, and others who come into contact with the Dalmatians have a better chance of dispensing their wares if they are able to convince the husband of the merits of their merchandise. The husband attempts to visualize the reactions of neighbors and friends to any intended purchase, taking into account relevant community and group values. He does not want to be looked upon as a "big-shot" or as one going "fancy." Most sales are for cash. Buying on credit is frowned upon.

This yearly round of activities in the Delta obviously revolves around oystering and orange cultivation. The interaction of the Yugoslavs and their social systems is synchronized with these economic activities.

V

Summary

THOUGH A SMALL GROUP, the Yugoslavs have made considerable imprint upon the economic life of the Delta. Immigrants from Dalmatia began making their way to Louisiana around 1820 and have continued to do so in varying numbers up to the present date. The initial focal point of Yugoslavian migration was New Orleans, Louisiana. But over the years Dalmatians have moved southward and today they are found throughout the Delta.

The Yugoslavs on the Delta differed from other South Slav immigrants in that they knew of specific openings in "the land of promise," knew precisely where they wanted to go, and what they would be able to do when they arrived. This was in marked contrast to later waves of South Slavs who went to a vague destination called "America" and were forced

to make numerous adjustments after they arrived.

In the Delta setting the Yugoslavs continued work patterns that were comparable to ones in the old country. Success in the oyster and orange industries gave rise to numerous other business enterprises.

The Yugoslavs on the Delta have resisted the tide of complete "Americanization" or assimilation, have maintained their ethnic identity and to a very large degree their old ways of life. This is not to say that some acculturation and assimilation have not taken place, but the process has been selective and largely controlled by the group. Naturally the present Yugoslavian communities are different in many respects from those of a hundred years ago. But the close social relationships, group cohesiveness, and distinctive work patterns that have characterized these immigrants are still evident, and it would appear that the Yugoslavs will continue for some time in the future as a unique social grouping on the Delta.

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No Compromise on Freedom

THERE IS DANGEROUS THINKING in the West. . . Progressives of the West believe that communism will win and the best that they can do is surrender peaceably to it. . . . But there are many millions of people in Southeast Asia and 450,000,000 in India who . . . will not permit themselves to be traded in the drawing rooms and cabinets of the Western world.

When [a responsible commentator of the West] states democracy cannot work in this part of the world this is an insult not only to India but also to Japan and to Malaysia. If America compromises on this vital issue of freedom in Asia, she will have to pay the price dearly—and on American soil.

[Asians] want and need the presence of the west on Asia's land and sea. The west alone can provide the power to balance Communist China until such a time as democratic nations like India and Japan can provide it. [From the U.S. Department of State.]

RAJMOHAN GANDHI¹

¹ Grandson of Mahatma Gandhi, in editorial in Indian magazine, *Himmat*.

The Land Question: The Theory Reexamined

By REGINALD EDWARD MORRIS*

MY PURPOSE IS TO SURVEY the principal land-holding practices which men have used at various times in history, and to consider the effects of these practices on the material and cultural advancement of the people involved.

Social scientists who study land tenure systems and community development sometimes refer to *the land problem*. This term is used to cover a variety of land problems, the details of which vary with time and place, but which nevertheless have at the core a common difficulty. This difficulty is the central one with which we must deal, with the object of understanding its causes and effects, and evaluating the solutions to it which have been proposed or tried. The full meaning of the term, the land problem, will become clear as we proceed, but perhaps we should attempt to express it concisely at the outset as an operational definition. It is the problem of achieving a distribution of land equitable to the needs and satisfaction of the inhabitants, which will also promote the allocation of land, as a scarce resource, to its most productive use for the development of the community.

The land problem is at once a sociological or anthropological one, and a politico-economic problem which calls for a problem-oriented approach in its study. The land problem has been persistent throughout history and it is basic to economic development and the clash of political ideologies in the world today. I will review the highlights of this history, the theories and principles involved, and the possible contributions which the various systems of tenure may provide for the solution.

I

Some Definitions

LAND TENURE REGULATIONS generally apply to the ground and water areas of the earth and the mineral, power, and biological resources which occur

* This is one of a series of studies on land tenure and community development.

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naturally in them or on them. Since we are primarily seeking general principles rather than specific facts, generalizations about land tenure which we can draw from this study presumably will apply to all natural opportunities available in the future as well as those now available. So we will use the term *land* in its broad economic sense as applying to the entire physical universe—exclusive of man and his products.

The term *community*, likewise, will be used in its broad and general meaning applicable to any particular community or society of men, or the society of all men in general. The *development* of the community will mean not only the increase in population, but the increase of general prosperity and the advancement of knowledge and technology made possible through increase in general prosperity or wealth.

Labor means any and all human exertion—entrepreneurial, mental, physical, etc., devoted to the production of wealth.

Production means the making and exchanging of wealth involving all such activities as extracting by growing, mining, fishing, etc., manufacturing processes, transporting, storing, buying and selling, etc.

Man must have access to land or die. The atmosphere is his breath of life; water is likewise essential; and all food, clothing, shelter, etc., are produced from and on land. All material things produced by man which satisfy his wants and needs are produced directly or indirectly from land. Some economists call these valuable things made from land by human labor *wealth*. Land and labor then, in this view, are the two basic *factors* in the production of wealth. Wealth employed by labor in the production of more wealth is called *capital*—the third factor of production.¹ The *distribution* of wealth to the factors of production is as *rent* for use of land, *wages* for labor expended, and *interest* for the use of capital.² *Profit* is an accounting concept, sometimes confused with economic categories of distribution. It refers simply to an amount gained over an amount invested, arising out of conditions of favorable exchange—as

¹ Many American economists (and Marxist economists, of course) include land under the categories of wealth or capital, e.g., see Tibor Scitovsky, *Welfare & Competition* (Chicago: Richard D. Irwin, Inc., 1951), "Note to Chapter IX: Land," p. 227. Since it is essential for this study of land tenure, the traditional production factors (land, labor, and capital) will be considered as discrete and mutually exclusive categories.

² Most economists today use the word *rent* (economic rent) as a relative term for any surplus distributed to any factor which exceeds the minimum return required to retain that factor in a given productive use. Under such definition part of wages and interest may be a rent and, conversely, part of the return to land may not be rent for a given use. For more complete explanation, see W. J. L. Ryan, *Price Theory* (London: Macmillan & Co., Ltd., 1958), "A Note on 'Economic Rent,' p. 222.

This modern application of the notion of rent (in some ways broader and in some ways narrower than classical usage) highlights distinctions in the distribution of wealth useful in many economic analyses. However, since it makes distinctions which are not important for this particular study, and blurs others which are, the earlier usage will be adhered to as applicable to all returns for use of land, and only those returns.

opposed to a *loss*. It can apply to wages, interest, or rent, singly or in any combination, depending upon the nature of the enterprise to which it refers. It is not a separate fourth category of distribution.

The terms whose definitions I have been careful to establish will be used throughout the several papers making up this study, always in the one sense as defined. As additional key terms come into use I will likewise define them and use them consistently with the definition.

Since all three factors of production are limited but needed in the production of wealth, a control of one or more of the factors is a control of the production of wealth. In examining land tenure practices I am concerned, in effect, with the various kinds and extent of control of one of these factors (land), and their effects upon the production and distribution of wealth, the society and culture of man—in short, the development of the community.

The association of advanced culture, or nonmaterial aspects of civilization, with high productivity and general distribution of wealth is well documented by history, but it may be appropriate at this point to summarize the general interreaction of the two.

The pursuit of learning, the development of the arts and sciences, the refinement of manners and philosophies is hardly possible for men who must devote their full time and energy to securing a meager sustenance from the earth. As man develops greater efficiency in production, larger and more advanced forms of capital, and with it leisure and the security a stock of wealth brings, he is freer to devote time and energy to the development of his culture, both individually and collectively. Advancements in knowledge and other aspects of culture in turn have application to production. The interaction and cooperation of men in society, the exchange of ideas in trade, characteristic of thriving economies, contributes to the diffusion and change of culture. Indeed, the pursuit of improvements in production stimulates inventiveness and science, as we are all well aware. The high correlation of learning with material well-being is strongly confirmed by modern research findings.³

II

Private Land Ownership

CONTROL OF LAND, as stated previously, is a control on production. The supply of land cannot be materially increased in response to a higher demand for it as can labor or capital.⁴ Rent (the return on, or portion of wealth paid for the use of land) rises as the demand for land rises. Where

³ An excellent study of this relationship may be found in Patricia Cayo Sexton, *Education and Income* (New York: Viking Press, 1961).

⁴ Improving the productivity of land has the effect of increasing its supply, but such improved land is not land, to the extent of its improvement, as we have defined the term.

land is privately owned, as in most of Western society, rent accrues to the landowner, or landlord, for the use of land, in the same manner as interest on wealth.

Private ownership of land provides secure tenure, in itself an incentive to improvement or production, but such right of ownership rests on very tenuous grounds. Traced to their origin, all claims of private ownership of land are based merely on first occupancy and use of land, conquest by force and violence, fraud, or arbitrary claims of ownership by some dominant political or ecclesiastical authority. In addition, the long-standing contention that property in land conflicts with the rights of producers to the full value of their efforts is a serious charge which we will need to examine carefully.

Land is not created by man; wealth is. In reasoning from cause to effect, the traditional claim to private ownership of wealth rests upon the logical claim of a maker to the produce of his own labor, or more fundamentally as posited by John Locke in the following often quoted lines: Though the earth and all inferior creatures be common to all men, yet every man has a "property" in his own "person." This nobody has any right to but himself. The "labour" of his body and the "work" of his hands, we may say, are properly his. Whatsoever, then, he removes out of the state that Nature hath provided and left it in, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state Nature placed it in, it hath by this labour something annexed to it that excludes the common right of other men. For this "labour" being the unquestionable property of the labourer, no man but he can have a right to what is once joined to, at least where there is enough, and as good left in common for others.

As much as any one can make use, to any advantage, of life before it spoils, so much he may by his labour fix a property in. Whatever is beyond this is more than his share, and belongs to others.⁵

Whether acquired by initial production, by gift, exchange, or other honest transmission, the natural source of the claim to ownership of wealth traces ultimately to what the producer has earned from nature by his labor and capital.

Professor Geiger reports what seems to be a parallel to this reasoning among primitive people:

There is . . . one type of generalization that the anthropologist permits himself to make in handling primitive property, and that is a distinction between property in land and property in movable chattels—a distinction that seems most impressive. This generalization tends to point out that

⁵ John Locke, "Concerning Civil Government," *Great Books of the Western World*, ed. Robert M. Hutchins (Chicago: William Benton, 1955), v. "Of Property," pp. 30-31.

private property in movables is much more clearly defined than property in land. Whereas with land there is ordinarily the emphasis upon joint ownership, the personal titles to chattels, on the contrary, are rather strictly individualized, and a collective treatment of land may go hand in hand with the private ownership of goods and implements. A distinction, for example, may be made between livestock and land, or even between fruit trees and the land on which they stand—a distinction in terms of individual and collective control.

This does not mean that a decisive and single system of collective land tenure is set up as against the private control of movables; it is simply that there seems to be a *general* difference in emphasis in the disposition of these two forms of primitive property.⁶

If the basis for the ownership of wealth given by Locke is the most fundamental claim and the one most firmly rooted in nature, a less vital claim which is contravening to it, and which retards the development of the community, must, to the extent of its contravention, be inferior and unfounded. The theory that an unqualified private ownership of land operates to this effect will be developed in the remainder of this article.

The *law of marginal productivity*, which is merely an extension of the *law of rent*,⁷ forms the basis of most modern economic theories of production and distribution.⁸ The employment and return of each factor of production tends toward an equilibrium determined by its marginal productivity. Each of the factors is subject, at some point, to a diminishing rate in the contribution it can make toward output as more and more units of the factor are added in proportion to the others. The number of units of each factor employed will thus tend toward a quantity where one unit more, or one unit less, would detract from profit. This is the level where the unit cost of the factor equals the value of its marginal product.⁹ Profit will not be maximized to the extent that the return to any factor employed is greater or less than the value of its marginal product. If the number of units of a factor employed was so large that its cost exceeded the value of its marginal product, profit would be increased if fewer units were employed. Likewise, if the number of units employed

⁶ George Raymond Geiger, *The Theory of the Land Question* (New York: The Macmillan Co., 1936), pp. 115–16. I will consider the major theories of anthropologists and land historians on the origins and development of property in some detail in another article.

⁷ The law of rent, sometimes called Ricardo's law of differential rent, merely expresses the normal movement of the price of land under the forces of supply and demand. Though often reexamined by economists, it stands today essentially unscathed. A formal expression of the law is that "the rent of land is determined by the excess of its produce over that which the same application [of labor and capital] can secure from the least productive land in use." Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1960), p. 168.

⁸ J. R. Hicks, *The Theory of Wages* (New York: Peter Smith, 1948), pp. 8–9, 112.

⁹ A factor's marginal product is the difference in actual physical product obtainable by

was so few that the factor's cost was less than the value of its marginal product, it would be profitable to increase employment of it.

The *margin of production*, or extensive margin, is established by the extent to which land is privately owned and pays rent. The most productive land that can be obtained without payment of rent is at the margin of production. The margin is said to be high or low as the productivity of the free land is high or low or—conversely—as land prices are low or high. The price of land, like other prices, is a function of demand for the existing supply. The law of rent operates, according to marginal productivity theory, to hold wages and interest, *ceteris paribus*, within the production level permitted by the margin. The higher the margin of production the greater the employment and returns of labor and capital can become. The lower the margin, the higher the rent.¹⁰ The distribution to any factor will thus vary with its capacity to increase production. Thus the supply of each of the factors for the others, the methods of production and, of course, the demands for the products (from which the other demands are derived), all have an important interrelated bearing on production and distribution.

The above in brief summary is the bare-bones theory which, presumably, operates on an "other things being equal" basis.¹¹ The work of expanding and modifying the marginal productivity theory to account for various political, social, psychological, and even religious influences upon production and distribution in any real economy is an ongoing study.¹² These influences, including such of their expressions as collective bargaining, credit and interest regulations, price controls, tariffs, taxes, *et al.*, which affect the allocation of production factors and wealth distribution, vary with time and place. Fortunately, it is not essential to try to account for them in gaining knowledge of basic economic theory necessary to an under-

the addition or subtraction of one unit of the factor when combined with given fixed quantities of other factors.

¹⁰ D. R. Robertson believes that for several reasons the relative share of rent declines as land plays a less important role in production. In highly industrialized economies the share of rent will be proportionately lower than it is in agricultural economies of simple technology. D. R. Robertson, *Economics of Wages* (London: Macmillan & Co., Ltd., 1961), pp. 186-87.

¹¹ There is no adequate statistical support for the theory. The copious statistics which do exist that might otherwise present some strong evidence are in accounting rather than economic categories and cannot be properly reorganized, e.g., "wages" data usually exclude all or some salaries, "fringe benefits," bonuses and profit sharing, perquisites, consultants and directors' fees, *et al.*, so are substantially incomplete. Interest is usually combined with an undisclosed amount of imputed rent and possibly some managerial wages in a category called "profit." "Rent," if it is shown, is usually commercial rent—a combination of rent and interest in unknown proportions.

¹² Strictly speaking, until the effects of these "other influences" on the operation of the theory can be more fully understood, the theory is critically untestable.

standing of the land problem and its influence on production and community development. Some of the noneconomic influences are, of course, critical and must be dealt with in any real situation involving the land problem and reform proposals.

Rent is geologically and community created; yet, through the institution of private property in land, is collected by individual owners. As the community grows and demand for land rises, so does rent. Wages, interest, and production are reduced by rent, squeezed between the market prices of the products of labor and capital and rent paid out or imputed. As succinctly stated by Mrs. Robinson, "land exists whether anyone is paid for owning it or not, so that an increase in rent income is really a levy upon the rest of the economy which is not related to any increase in production; on the contrary, it arises from the limitations upon production set by the scarcity of land."¹³ These adverse effects on production seem more pronounced in agriculture or relatively static economic conditions where production improvements are made slowly or are quite obvious as made. A plausible explanation is that under more dynamic industrial conditions with continued improvements in capital, technology, methods of production, etc., which increase the marginal productivity of labor and capital with little or no increase in land used, productivity may increase at a faster rate than the advance in rent. Under such dynamic conditions the problem will be less acute but, nevertheless, represents a continuously increasing drag on the economy.¹⁴ In the United States, the most developed country, per capita land values (which reflect rent) in constant dollars have increased by over 83 per cent between 1945 and 1964, and such values are taxed at varying rates in the several states, from a low of 8 per cent to a high of 58 per cent in New York.¹⁵

In a non-competitive market, production cost increases due to rent may, in part at least, be passed on to consumers in the form of higher prices.¹⁶ To whatever extent this occurs, real consumer buying power (the bulk of which is wages and interest) is reduced. The bulk net effect by income category is still a reduction of wages and interest by rent. The influence of rent on the economy is often overlooked by people who blame fluctuations of depression and inflation of the economy largely on wage increases or "profiteering" of capital owners. Strikes and "pattern setting" wage or

¹³ Joan Robinson, *The Accumulation of Capital* (London: Macmillan & Co., Ltd., 1956), p. 327.

¹⁴ Robertson, *loc. cit.*

¹⁵ W. F. Swanton, "Land Value Trends in the United States," *American Journal of Economics and Sociology*, Vol. 24 (April, 1965), pp. 164-65.

¹⁶ John F. Due, *Government Finance*, 3rd ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1963), p. 366.

other price increases are often well publicized and accompanied by considerable moralizing, but the influence of rent on these changes, or the institution which enables holders of land to gain from what others have created, is seldom questioned.

Speculation in land is common where land is privately owned. Land purchased in advance of anticipated growth of the community, or withheld from production in anticipation of higher rent, retards and curtails community development. There are currently nearly thirteen million vacant lots (not counting parking lots) in United States cities.¹⁷ High rent, together with taxes on improvements (wealth), is a principal cause of slums in dense communities and of the social problems arising from them. Where the demand for housing is high in relation to supply, and where improvements are taxed more heavily than land, the landlord secures his greatest net profit by not improving his property any more than necessary to assure continued occupancy. In crowded cities with chronic shortages of housing this improvement need be very little—hence, the growth of slums.

The influence of rent on production and, consequently, on community development has been identified by economists from the time of the physiocrats and has been a special object of study by many, such as David Ricardo, John Stuart Mill, Henry George, Harry Gunnison Brown, *et al.* Where land ownership is concentrated in the hands of a few, wealth, in the form of rent, and the power which goes with wealth, likewise becomes concentrated. It is frequently asserted—and frequently disputed—that one of the chief causes of the decline and fall of some of the great civilizations in the past has been the law of rent and the private ownership of land operating together to concentrate wealth and its power in the hands of a few at the expense of the many. Professor Sakolski, for example, noted:

This evolution [of land ownership from a collective concept to a legal status of private ownership], almost universal in the history of mankind, may be regarded as one of the principal sources of political upheavals and agrarian discontent, accompanied by political corruption and economic ruin, which have marked the course of great nations and empires both past and present.¹⁸

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¹⁷ H. G. Brown, "A Capital Incentive Reform Beneficial to Labor," *American Journal of Economics and Sociology*, Vol. 2 (January, 1965), p. 69. Also see Marion Clawson, "Urban Sprawl and Speculation in Suburban Land," *Land Economics*, Vol. 38, No. 2 (May, 1962), pp. 99–111.

¹⁸ Aaron M. Sakolski, *Land Tenure and Land Taxation in America* (New York: Robert Schalkenbach Foundation, 1957), p. 10.

A Tax-Sharing Plan Geared to Urban Renewal

By STEVEN B. CORD

THE PROPOSAL THAT THE federal government should share part of its revenue with the states has evinced much enthusiasm in Congress, among the states themselves, and in academic circles. But recent Senate hearings indicate that there are wide differences of opinion on who should get the federal money and how it should be distributed.

Walter Heller, former chairman of the Council of Economic Advisers, can be credited with starting the whole debate by proposing that the federal government send back to the states a fixed portion of its tax revenues. Originally Heller contemplated unconditional grants to the states, although others have proposed that the grants be tied to certain specified projects (but such conditional grants would seem to destroy the original purpose of tax-sharing and not be any different from what's going on now).

I

MANY ADVANTAGES HAVE BEEN CLAIMED for federal-state tax-sharing. First, economic growth and a powerful tax system have generated ample new federal revenues. But at the state and local levels the situation is reversed: economic growth has increased the responsibilities of those governments—new schools, hospitals, roads, welfare, etc., are needed—and these burgeoning responsibilities have far outstripped the meager sources of local revenue. Tax-sharing, it is argued, would harness federal taxing power to local revenue needs.

Secondly, inevitable confusion, inefficiency, and delay result when vast amounts and types of federal grants must be administered from Washington for a huge and varied country. In 1967, for instance, these grants approximated \$15 billion. Heller and his cohorts feel that these sums and programs could be more efficiently administered at the state and local level, where state and local differences could be taken into account. Furthermore, because many of the federal grants require the states to match federal payments, the budgets of the states have been shaped, and perhaps distorted, by what the Washington administration thinks should be done rather than by the states' assessments of their own needs.

A third advantage claimed for the tax-sharing idea is that it would preserve the independence and power of the states. It would remedy

their chronic lack of funds and give them control over the various welfare programs operated within their boundaries and which are now controlled from Washington.

On the other hand, the tax-sharing plan has not escaped criticism. It has been pointed out that if the states become accustomed to federal handouts, a basic and dangerous dependence on the federal government will be created. "He who pays the piper calls the tune," and perhaps in some future crisis the federal government could threaten to reduce its subsidies to the states if the latter should refuse to follow federal directions. Such a situation is all the more possible because any sharing of the federal tax revenues can be done on some arbitrary basis only, and the arbitrariness is ultimately to be decided by the whims and desires of the government in Washington.

Other critics, particularly mayors, have pointed out that since the state legislatures are still rural-dominated, Supreme Court rulings to the contrary notwithstanding, they can hardly be trusted to respond to urban needs. Of course, it is possible, although politically difficult, to require that a large part of the federal revenues returned to the states be spent in urban areas.

Which brings up a third criticism: the great potential for political squabbling. Already mayors have clashed with governors and rich states have clashed with poor states over who would get what and how. States rights advocates have argued among themselves over this plan, and of course they have argued with federal rights advocates also. The arbitrary basis for the tax-sharing plans thus far proposed has added fuel to the disputes.

And then there is a certain lack of logic in taking tax revenues from the states and later returning some of it back to the states. Obviously, there is also considerable cost in this lack of logic.

II

IT IS AT THIS POINT that I would like to add some new thoughts to this tax-sharing debate. It has not been generally recognized that for a long time *cities and states have been subsidizing the federal government* rather than the other way around! Since the beginning of our nation, the federal government has owned property within the various states and cities of the land, *without paying a single cent in property taxes*. I am referring to such urban property as post offices, armories, office buildings, and mints, and to such rural property as parks, natural resource reserves, and military bases.

This federal property benefits from the same advantages conferred on privately owned tax-paying property. Municipal police and fire protection is afforded federal post offices even though they don't pay for such services. Roads are built, streets are lighted, garbage is collected, etc., all services from which the post office benefits without paying. In fact, by removing property from the tax rolls, federal installations increase the local tax burdens—already distended—that private owners have to bear. Thus the state and local governments have been performing services for the federal government for which the latter has made no payment—a subsidy if there ever was one. Before we create new counter-subsidies, why not first get rid of the old reverse subsidies?

One simple way to do this is to *let the federal government pay to each city and state throughout the country a tax on the full annual rental value of each parcel of land it owns*. Before delineating the advantages of this tax-sharing proposal, let us be sure we understand its details.

In the first place, every piece of land, whether federally owned or otherwise, has a certain sale price. If 6 percent is the prevailing interest return on land investments, then potential land rental of any plot is 6 percent of the sale price plus the prevailing property tax rate in the community multiplied by the price. The sum of these two factors is equal to the annual land rent of the parcel, and it is this amount which the federal government ought to pay to the cities and states.

An example will clarify the matter: if a piece of land is worth \$10,000, then the annual land rent is $\$10,000 \times .06 = \600 (or what the land would currently bring in annual income if rented out). If the community's tax rate is 2 per cent, then it is currently collecting $\$10,000 \times .02 = \200 in taxes, or in other words, in *publicly* collected land rent. The total current annual rent for this plot is $\$600 + \$200 = \$800$, and if it were under a post office this \$800 would be the *imputed* land rent. This is the sum which the federal government should pay to the municipality which provides services and customers.

Instead of this land tax, many people will ask if it wouldn't be easier for the federal government to pay an ordinary property tax on the property it owns, just like any other property owner in the community. No, it would in fact be more difficult. With a land value tax, it would not be necessary to assess the value of federal improvements, many of which would be hard to appraise because buildings like post offices, military bases, hospitals, etc., are not often bought and sold, thus making it difficult to ascertain their market value. It surely is simpler to assess land only rather than land and building.

But there are many more cogent reasons why a tax on land values only rather than on land and buildings would be a better means of federal tax-sharing. A tax on federally owned improvements would only increase the cost of operating such improvements and of building new ones. A tax on federally owned land, however, would have distinct economic advantages. It would strongly discourage the inefficient use of land by the federal government. The more land the government uses, the higher the cost. By keying land use to land cost, there would be less federal sprawl. Without the goad of land value taxation, the federal government has naturally tended to use more land or more valuable land than it had to use.¹

This tax-sharing plan would have other advantages as well. Most of the rebates would go to the cities because that is where the most valuable federally owned land is. And it is in the cities that we find the greatest need for federal aid. Where federal land holdings are extensive, as in the case of air bases, national parks, natural resource reserves, etc., then the land tax payments should go directly to the state government for distribution to urban or rural areas as the legislatures see fit.²

III

IT SHOULD BE REALIZED that this proposal, which we can call the Land Value Tax-Sharing Plan, is not another federal subsidy but is instead a payment for benefits received. Post offices are not put out in fields somewhere. They are located where they can take advantage of the amenities afforded by crowded communities. They need access to government services and nearness to large groups of people. These locational advantages are measured by only one indicator—land values. It is only fair that the federal government should pay for the services rendered to these facilities by the community or for the benefits received by being near their market.

Because the Land Value Tax-Sharing Plan has such a definite and specific criterion for determining how much money the federal government should give to each city and state—*i.e.*, the value of the land it owns in each city and state—we can expect practically no squabbling between the various states, or between mayors and governors, over the

¹ In the Soviet Union it was found necessary to include interest on capital investment as an expense on the bookkeeping records of state-owned enterprises in order to better ascertain efficiency. Before this innovation, the managers of these enterprises tended to stock up on inventory and capital equipment far beyond need, there being no cost in doing so. In the same way, a government agency in this country can "stockpile" land—*i.e.*, put it to less than full use—if there is no tax charge to the agency for holding it out of full use.

² If it turns out that certain states would receive a higher share of the tax rebate than is their due, it is always possible to subsidize the other states according to the Heller tax-sharing plan or its variants.

disposition of the federal tax rebate. This compares favorably to what we could expect from all the other tax-sharing plans so far suggested.

In addition, under the Land Value Tax-Sharing Plan the danger of federal domination of the cities and states is nonexistent. This is not true of the other tax-sharing plans. In fact, the federal government is strengthening the cities and states by paying rent to them.

But the same arguments that lead us to advocate the payment of rent to localities by the federal government for the land it owns *applies equally as well to the states!* They, too, own land in the cities for which they are not paying taxes for benefits received. They, too, have been subsidized by the cities, and what's more, many states, recognizing the plight of their cities, have been paying them subsidies of various sorts for many years. On the one hand the tax-starved cities subsidize the states, and on the other hand the states subsidize the cities! If the federal government should pay rent to the cities for the land it owns, so should the states, and if this is done, there will be less need for subsidies and counter-subsidies.

Nor should the indirect advantages of the Land Value Tax-Sharing Plan be overlooked. Numerous urban renewal authorities have called for heavier taxes on land values in lieu of lighter taxes on improvements, if not as yet for the federal or state governments, then for privately owned real estate. The principle of land value taxation is clearly established, and the federal and state governments could do much to see it implemented if they would lead the way by paying taxes on the land they own.

A brief sampling of expert opinion is in order here. A conference sponsored by the National League of Cities and the National Council for Good Cities (ACTION), among others, voiced this opinion:

Taxes on land (or, more correctly, site values, or perhaps still more correctly, location values) tend to encourage, speed, or sometimes even compel improvements. The bigger the land tax the bigger the pressure on land owners whose property is under-used to do something to increase its earning power—or sell it to someone who will.³

Says the well-known British economist Colin Clark: "Any good economist can demonstrate that the land tax is perhaps the only tax that doesn't discourage enterprise."⁴ An article in the *Architectural Forum* maintains that urban redevelopment could be more naturally and more quickly accomplished "... if the profit motive were harnessed forwards instead of backwards—that is, by untaxing the improvements which are now so discouragingly overtaxed, and by shifting most of the local tax burden

³ *Nation's Cities*, March, 1965, p. 23.

⁴ *Ibid.*, p. 26.

to the community created location values now almost scandalously under-taxed."⁵

An Urban Land Institute study declares that land value taxation "is a golden key to urban renewal, to the automatic regeneration of the city—and not at public expense."⁶ Limited land value taxation has been successfully attempted in Pittsburgh, Scranton, Arden, Delaware and Fairhope, Alabama. Recently the state of Hawaii has adopted this tax approach to urban renewal and land reform.

Our federal and state governments are presently hindering the much-needed reform of the local property tax by not bearing their fair share. It is time for them to recognize their responsibility in this area and at the same time to apportion tax revenues more equitably among the various levels of government.

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Indiana, Pa.*

⁵ Perry Prentice, "Taxes and the Death of Cities," *Architectural Forum*, 123: November 1965, p. 57.

⁶ Mary Rawson, "Property Taxation and Urban Development" (Washington, D.C.: Urban Land Institute, 1961), p. 28.

Water Over Long Distances

WATER IS OFTEN taken for granted and yet shortages in many parts of the world, for example in the American West, are of great significance in curtailing economic and social development. The National Academy of Sciences-National Research Council has constituted a committee of leaders in American science to study the problems of water supply and usage.

One of the ways that shortages may be overcome is in the movement of water over long distances. As Frank Quinn has pointed out in a thoughtful article, "Water Transfers—Must the American West Be Won Again?" (*Geographical Review*, January, 1968), the physical transfer of water is technologically possible for long distances in the American West. However, these possibilities need to be studied along with alternative means of satisfying the total demand and with concern for the range of legal and political impediments that bear on the flow of water among different users and regions. Though the problem of water supply and movement directly affects the western United States, these are matters of concern for national policy. [From the American Geographical Society.]

Land Distribution in Densely Populated Developing Countries

By YAU-PIK CHAU AND HENRY C. DURHAM

Introduction

AMONG THE DENSELY POPULATED developing countries of the world, farm land is the primary form of natural wealth. The system of ownership and management of agricultural land is therefore an important subject in the momentous ideological controversy being waged in our times between totalitarian communism, on the one hand, and democratic individualism, on the other. Because highly concentrated ownership and "minute working tracts" of land have become intolerably inefficient under modern conditions of agricultural technology, programs of land reform have been an essential component in the over-all plans of economic development in many less developed areas of the world. This has been true, for example, in Southern Italy and in Egypt. In more than one densely populated developing country intelligent land reform has laid the basis for sound development of a free economy, saving the people from the toils and disillusionment of communism.

To lay the basis for sound development of a free country, adequate land distribution, among other important programs, is a necessary step. Reasonable land distribution will solve the problem of highly concentrated ownership and the "minute working tracts" of land. This paper will center on land distribution in densely populated developing countries. And let me make clear that the suggestions in it only apply to densely populated developing countries. The proposed program does not preclude the imposition of taxes to meet the demand for an increasing total of government expenditures.

I

A Proposed Land Reform Program

Retention of title by original owner. In the proposed land reform program, changes could be made in such a manner as to prevent unnecessary disturbances of the social order, to stimulate general production, to improve the lot of the farmer and, at the same time, to eliminate inherent abuses. For these things to be accomplished, private ownership of land, but under governmental surveillance, should be continued. Land, however, in this proposed system, is to be regarded as a special commodity, in a class by itself. Purchases and sales are to be undertaken through

government agencies. Private transactions will be allowed under a permit system that will be described later. One can readily see that, precisely because of this delegated power and control over ownership, excessive holdings by an individual eventually can be made to conform to the best interests of small farmers. This is the primary phase of the land reform program: limiting individual ownership.

State regulation of land leasing and renting. It is to be provided that the agricultural land to be included in the first stage of the program be leased by the government from private owners. Then, upon determining a reasonable rate, the land should be sublet to the individual farmer. The rent rate thus fixed by government could be changed in the event that the government makes improvements in the land. Neither owner nor lessee should have the right to ask for alteration under any circumstances. That such economic authority over land should be given the government is not without valid reason. Hereafter the government assumes the function of a renting agency. For instance, the government in some localities must undertake the difficult task of assembling the fragmentary fields into sizable farms and of converting nonproductive pleasure gardens and large tracts of waste land into crop-bearing fields. All these efforts enable the government to relet the improved lots only to the farmers—farmers who are qualified in an economic sense. The strong point of this procedure lies in the fact that the value of the land is enhanced through the activities of the government. Thus a natural increase in rent ensues. And a certain percentage of this added revenue should rightly belong to the public treasury. Thus the government may be released from the necessity of levying a land tax and the man who actually does the farming will not have to bear such a tax. Under the permit system, the individual farmer is permitted to sublet the land to others. This outlines briefly the second phase of our proposed land reform measures.

Land restricted to productive purposes. To assure a sufficient supply of agricultural land to users for productive purposes, the government would limit rights to the use of land to these people alone. With government aid, "dirt farmers" hereafter would be assured of employment under far easier terms. Further, as indicated earlier, an increase in the value of the land would be effected by government measures such as irrigation, reclamation, etc. With such an increase of capital, farming would become more profitable. The advantages can be concretely illustrated from two viewpoints. First, after the regrouping of fields and reclamation of wastelands by the government, an increase in the area of individual farms will occur. A farmer who used to till one "acre"

will perhaps be able to have five. Second, the better methods of scientific farming made possible through government aid will tend to result in a larger yield.

Taking both of these advantages into consideration, one finds that the average farmer stands to reap windfall gains. Of course, the prosperity of the individual farmer would be of considerable aid to the commercial and industrial sectors to which he would supply food and raw materials. But the important point is that the standard of living of the "dirt farmer" himself would now be greatly improved. Furthermore, his ability to accumulate capital would be improved. In short, the realization of this third phase would surely bring about a general improvement in the rural economy.

To allow cities to continue to absorb surplus rural population, provision must be made for the encouragement of industrialization. Some industries require large areas of land for optimum development. A system of land reform must provide for the contingency of promoting industrialization. Initially new industry would obtain its land from the government in the same manner as the individual farmer. Subsequent land transfers—whether additions or subtractions—would be handled by obtaining a permit from the government, rather than requiring resale to the government. Such a procedure has the advantage of reducing administrative expense while retaining necessary control. The industrial firm, generally being of larger size, is for the most part able to protect itself in the market place. Governmental interference in the operation of the free market is generally not needed to protect the firm. However, to protect in such transactions other parties who may be individuals and to safeguard the public interest in the allocation of resources, the government must restrict these activities to the specific situations for which they are provided. A permit system fulfills this need.

II

The Aims and Purposes of the Program

HAVING BRIEFLY OUTLINED the actual process of the proposed land reform program, it is now imperative to elucidate its aims and purposes. Mainly, the program affords protection equally to landowners and tenants, through close supervision and regulation by the State. With one stroke both improved productivity and social justice could be brought about. The actual effects attending the successful operation of the proposal will be revealed in the following discussion.

Harmonizing the diverse interests of the State, the farmers, and the land-

owners. Through the proposed land reform program, the diverse interests of the State, the farmers, and the landowners could be harmonized so that all combine their efforts for the common good. In the past the government in China and many other developing countries was too prone to follow the policy of *laissez-faire*, countenancing arbitrary measures by landowners and giving them excessive control over the land and its tillers. Landlord oppression in these counties was so flagrant and obvious that on this topic there is no need for further elaboration. It is sufficient to say that it existed and perhaps headed the list of all social injustices. The land reform we propose is designed to end arbitrary control by landowners without canceling title to their holdings. It is the most considerate treatment possible and allows them a reasonable return from their land. With the end of absolute control over the leasing of land and its sales and purchases, landlords will not be in a position to dominate the tenants as of old. The government—thus authorized to exercise close regulation of the land belonging to citizens—can function more properly in the fields of economic and social welfare. On the side of the tenant farmers, the advantages are numerous indeed. For one, tenancy is protected; the tenant is no longer at the mercy of the landlords. For another, the tenant can look to his government for fair treatment in setting rents and for technical aid. Under existing conditions in developing countries, the proposed program seems to be most practical and feasible.

Realization of a democratic system. The proposed measures can be regarded as a means toward the realization of a democratic system. Some economists advocate the State regulation of landowning in densely populated developing countries as a means of realizing a democratic system. This may be the best approach. The alternative sometimes suggested is that the government, instead of confiscating the land, buy the land and allot it to tenants on an equitable basis. But this is not always practical. The financial capacity of a government might not be equal to a purchase program on so gigantic in size. What is proposed in the land reform program possesses the advantage of promising to attain "Fair Deal" in land, without the obligation of assuming a burdensome purchase price. It must be remembered that under the proposed scheme the government would be given direct control over privately owned land. Sales and purchases, leases, or any other transfers of land among individuals would be regulated in the interest of society.

The lessening of demand for agricultural land by speculators hoping to reap profits from rising land value would afford the poorer farmer—who actually farms—an opportunity to purchase more land for farming purpose

at less expensive prices than during the time of unrestricted speculation in land. In the new order such advantages would be automatically extended to the lowest stratum of poor farmers.

Uniting the existing fragmentary fields into larger farms of more economical size. The proposed measures would have the effect of uniting the existing fragmentary fields into larger farms of more economical size. When a free market for agricultural land exists, holdings are apt to be sold in small and odd-sized lots. But under government control these practices would be banned. Instead, considerations to insure more economical production enter into all sales, purchases, and leases of land so that the farmers would be freed from the wasteful use of labor and fertilizers. The proposed land reform program would really exert far-reaching influence even if it only prevented, through government action, the fragmentation of family holdings into plots of uneconomic size. According to the proposed program each farmer and his kin would be under the supervision of the local agency and would not be entitled to transfer land without sanction. Under the proposal only farms of a size capable of economic operation would be permitted. Nevertheless, the plan does not preclude the existence of small-scale farmers.

The farmer's freedom to change his vocation. Freedom in the change of vocation is another incidental effect of the proposed land reform program. Under this program artisans in the cities would be encouraged to return home and become farmers, leasing land from a government agency. The same thing would apply to merchants and servicemen and others. This policy works just as readily in reverse for a farmer who could adopt a fresh livelihood upon the "leasing back" of his acres to the government. Within such a society absolute "freedom of occupation" allows full development of one's talents—the only kind of rational life. This freedom cannot be enjoyed by the farmers found behind the Iron Curtain or even under that system which is called "Land-to-the-Tiller" or a "one-owns-what-he-farms" pattern. Under these systems farmers are bound to the land like beasts of burden. Very rarely can a farmer hope to work as a factory hand or vice versa.

III

The Significance of the Program

THE AIMS AND PURPOSES of the land reform program can be better understood by exploring some related aspects of the subject more fully.

The increment from the sales of land to revert to the public treasury. The first point to claim attention is the question of whether or not the increment from the sales of land should revert to the public treasury. An

affirmative reply does not overlook difficulties arising out of the process of declaring the "true" prices and the amount of work involved in auditing and checking the numerous reports. Only in the proposed land reform program can one find an indirect device to insure the treasury's share of any inordinate profits from land sales. Two concrete illustrations will suffice to reveal the actual process of operation of the indirect method.

All landowners who want to dispose of their holdings must sell only to government agencies. To fix the purchase prices the government agencies must first of all discover the actual original cost price—in other words, the land cost to the owner at the time of the original purchase, deflated by using the *Consumer's Price Index*. Then an auction for the disposition of the land in question would be held, awarding the new ownership to the highest bidder who must be qualified under government rules. Now the difference between the cost to the original owner and the price accepted at the auction would be the share to be assigned to the public treasury. Thus any increase in land value would go automatically to the government.

In cases of land-leasing or tenancy-granting, the government would rent the land from individual owners who would be issued rent certificates, the earning power of which would be fixed by the current average rate of interest on commercial bank loans. For example, each owner holding a five-year rent certificate would be entitled to collect from the public treasury semiannually a certain amount of staple crops or an equivalent in coin. Of course, the government is expected to relet the land at a premium, however slight it may be. In any case, the public is benefited by its monopoly of the leasing power on farm land.

Equal vocational opportunities to farmers and artisans alike, affording more substantial benefits than rent-reduction enactment. The practice of reducing the rental rate by government order has been regarded in some countries as a panacea for the protection and welfare of tenant farmers. But economically arbitrary reduction of rental rates tends to run counter to the free market. Indeed, to push ahead with legislative enactments without appropriate qualifying conditions is to usher in unexpected restrictions on the normal operation of the current economy without an equal amount of compensating advantages. The tenant farmers could be protected minutely in the proposed land reform program. With the establishment of governmental-controlled exchanges for land leasing, both farmers and artisans are afforded an equal opportunity for vocational choice. The natural course of events in a freely operating economy would take care of the rest. That is to say, a wholly free worker of the soil, without restric-

tive ties, stands a better chance than one overloaded with paternalistic legislation, however benevolent in intent.

Disappearance of individual control under the proposed land reform program. Letting those who till the soil have control of this occupation to the exclusion of all other groups of people would create monopolistic tendencies. Land has become a serious problem merely because of its limited supply and the resulting monopolistic tendencies among its owners. To limit ownership only to farmers could greatly accelerate this monopolistic tendency. Again, if farmers are confined to the soil through governmental enactments—an imperative condition if ownership is restricted to farmers—the results would hardly be to their benefit, for reasons already stated.

Promoting the ordinary farmer into the status of agricultural-industrialist. It is pertinent to reiterate here that one of the major effects expected from the proposed land reform program is the advancement of the status of the ordinary farmer to that of an agricultural industrialist. Large pieces of farm land, resulting from the combination of fragmentary fields, will be available to those farmers who have realized sufficient capital from their efforts, consequently giving birth to a fresh class of agricultural-entrepreneurs.

Making possible a free and mutual flow of agricultural and industrial capital. The general reform of the whole agricultural economy is indeed a complex problem, requiring the fulfillment of a number of conditions. It is only possible to list the chief ones:

Fragmentary fields must be recast into larger and more economical units in order that an extensive farming system may be installed.

The farm population must be aided in attaining a "workable" amount of capital. They must be introduced to scientific farming and the employment of modern mechanical equipment.

Their productive capacity must be raised through general government assistance.

They must be enabled to produce for the market, as well as for home consumption.

The government must afford the surplus or unemployed farmers opportunities for a free change of vocation, in addition to providing a free and mutual flow of agricultural and industrial capital.

Generally speaking, solutions to these problems can be found in the proposed land reform program.

The distribution of the rights to land and that of the land-certificates

system. The question of the distribution of the rights to land and the questions pertaining to the land-certificates system should be carefully studied item by item.

- A. As a fundamental principle, the rights to land are extended to all people within the State.
- B. The farmers' banks and cooperatives are to handle exchanges of land-rights certificates.
- C. The rights to land are divided into (a) rights to ownership or title, (b) renting authority and the privileges to use fields for farming, (c) ownership of rent collection certificates.
- D. The government is to pay rents at an ironclad rate, fixed in accordance with the prevailing comparable interest charges of commercial banks.
- E. The monetary value indicated in the rent notes or certificates is set in terms of the general price level, using the price index. Eventually grain notes may be issued as substitutes for common bank notes. All this is done to give farmers a better opportunity for profit.
- F. Discounts on exchange are permitted to holders of rent certificates. All transactions must proceed through government agencies which possess the sole authority to determine the rate of discount.
- G. There is a specified way to extend the ownership of land to the common people. The government is required to sell land at a low price. All workers would receive a certificate entitling them to land in lieu of part of their actual wages. The idea is to let each family own at least a few acres. Upon the complete realization of this particular suggestion, the economic vista of developing countries would appear more hopeful. The political order could be put on a more stable basis.

Bringing about the union of farm capital and industrial capital. The successful issuance of land-title deed certificates would bring about freer interchange of farm capital and industrial capital, facilitating mutual flows. The former artificial lines or barriers between towns and country, as well as between people, would naturally diminish.

Making land rent conform to bank interest. The government is burdened with a double duty. On the one hand, it must undertake to make land rent vary with bank interest; on the other, it must work for the physical improvement of land so that added revenue may be gathered during the process of reletting the land to provide funds for general economic reconstruction.

IV

Conclusion

FINALLY, THE MEASURES thus far outlined are mutually interdependent in nature. Their success in actual operation would depend on full adoption. Let it be repeated here that in the author's considered opinion, such intangible aspects of the land question as improving rural livelihoods and establishing viable towns should be deemed as joint prerequisites to a final solution. The towns, and the effort to build them, would contribute to the basis of a democratic government. With a real democratic government, the proposed program for land reform could be administered effectively.

Before concluding this discussion, let it also be understood that in presenting these proposals the author purposely limits himself to commonplace and homespun ideas. He is fully aware of the traditions and allegiances in developing countries. Too comprehensive a scheme might lead to uncalled-for social upheavals. Hence, he stands for orderly reforms, grounded only on a gradual program, so that a new era with lasting benefits may come to all developing countries, from their present and past back alleys, the rural farming districts.

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The Role of Business

IN HIS NEW BOOK, *The Business of Business: Private Enterprise and Public Affairs*¹ M. A. Wright, Humble Oil board chairman, takes a perceptive look at the businessman's role in the Great Society and at the challenges management faces in the public arena.

The overall content of the book encompasses a discussion of national issues of importance, not only to the business community, but also to other segments of society. Erwin D. Canham, who wrote the Foreword, says, "These speeches . . . are not negative speeches, fighting a desperate last ditch fight against a powerful federal government. They are constructive speeches, emphasizing what business can do to help solve the problems government is tackling, and analyzing the pitfalls both for business and government."

The speeches depict the new American business executive and illustrate the "new capitalism" in action—a capitalism of stewardship, of social action, of responsiveness.

India's Loss of Scientific Personnel

OF AN ESTIMATED total of 700,000 scientific and technical personnel in India, some 270,000 are university graduates in science. Graduates in kindred fields include:

Agriculture	28,000
Veterinary Medicine	9,000
Engineering, Tech. Studies	110,000
Medical Drs.	94,000

It is estimated that 5 per cent of the country's scientific and technical personnel are currently abroad. Despite India's needs, the following table indicates that only half of the Indian scientists and technologists return home after taking up higher studies abroad.

Scientific Personnel Returning to India

<i>Subject</i>	<i>Total Reg'd</i>	<i>Total Ret'd</i>	<i>Per Cent Returned</i>
Science	3,413	1,674	49
Technol.	892	469	53
Engrng.	5,000	2,316	46
Medicine	1,910	894	47
Total	11,215	5,353	48

One rapidly growing field in India is marine science. There are at present only 111 highly trained oceanographers in India, spread over a dozen organizations and universities. The newly formed National Institute of Oceanography has started some research activities and hopes to initiate its full scientific operations by 1968. The Institute alone ultimately will require a research staff of nearly 300, so that this field of science is likely to experience a serious personnel shortage. [From the U.S. Department of State.]

Federal Aid to the 'Poor'

INSTEAD OF COMBATING low incomes of rural people, these programs [federal programs assertedly adopted to aid rural America] have helped to create wealthy landowners while largely bypassing the rural poor.—President's National Advisory Commission on Rural Poverty [Report, 1967.]

The Latin American Way of Life, II

Cultural Factors and Attitudes Making for Unity

By RAYMOND E. CRIST

Language

A COMMON LANGUAGE everywhere tends to act as a unifying factor of great significance, and this is especially true of Latin America. The language of Castile was spread over the New World from Cape Horn to California, and Castilian became the official language of Spanish America. To be sure the Arabs and Moors, during the eight centuries they inhabited the Iberian Peninsula, superimposed on Castilian and Portuguese a rich vocabulary of Arabic words. The words in those languages dealing with irrigation and weights and measures are almost all of Arabic origin: *azud* (irrigation water wheel), *acequia* (irrigation ditch), *aljibe* (cistern), *alberca* (reservoir), *acena* (water mill), *noría* (water hoist of a series of buckets), *alfarda* (tax paid for irrigation of lands), and so on. The list is very long indeed.

When such non-Spanish-speaking people as Basques and Catalans emigrated from the Peninsula to the New World they had to do business in Castilian and their descendants of course learned it as their mother tongue. Over the vast area now known as Brazil—larger than the continental United States—Portuguese explorers spread their mother tongue, and, in spite of local variations and differences in inflection, it is used and understood by all, except a few forest Indians, from one end to the other of that vast country, just as is American English from coast to coast in the United States. At the present time the illiterate peasant from Patagonia has no difficulty in making himself understood by his fellows on the plains of Venezuela or in the deserts of northern Mexico. The language of Castile has been one of the strongest forces in welding into national political units the various geographic and social sectors of each of the Hispano-American republics. And it is no less important in creating a feeling of solidarity among the various Hispanic nations themselves. Portuguese has played much the same role in the essential unity of Brazil.

The political tie of the Hispano-American republics to their mother country has long been severed, but the cultural bonds, re-enforced by a common language, are perhaps stronger than ever. October 12, Discovery Day, the Día de la Raza (literally, Day of the Race), one of the most important holidays of the year, evokes past glories and renews faith in a rosy

future for all those whose mother tongue is Spanish. Hispanidad (Hispanism) is just a word to us, but to millions of Latin Americans it has subtle spiritual overtones.

There are, to be sure, numerous attitudes built into the very language itself: for example, in Spanish a watch walks (*anda*); it does not run. This may be a reason why it is next to impossible to convey the idea that time flies, that time is money. That is a concept that is not built into the language.

For another example—the person involved in minor accidents feels no responsibility: when a treasured piece of Wedgwood crashes in a thousand pieces on the kitchen floor, the mistress of the maid may be angry at her, but the maid herself cannot understand that attitude. Did not the piece of china “fall away from her and break itself”? The china was, for all practical purposes, imbued in *her* mind with a malignant spirit. It broke itself on *her*, a poor, passive innocent in the whole drama. English hardly captures this attitude or concept in the innocuous “it broke on me.”

If a workman uses a bus to get to work he does not arrive late, or fail to arrive at all, because “he missed the bus.” No, in his language “the bus went off and left me.” Of course, a contributory factor may have been that his watch—if he had one—or the village clock was “walking slowly.” The significant thing is that the responsibility, as he sees it, for this contretemps was not his.

The Church

ONE UNIFYING FACTOR of great significance in Latin America is the Roman Catholic Church. Catholicism is the dominant religion over the entire area except for a few tiny English and Dutch enclaves, little more than Protestant beachheads. The Catholic Church accommodated itself to the indigenous religions of the Indians of the highland communities to such an extent that many of the Aztec and Inca festivals were incorporated into the New World religious calendar—*cf.* the provocative study of Anita Brenner, *Idols Behind Altars*.

In those tropical lowland areas with a high proportion of Negro inhabitants the Church thrives, although it has not been able to uproot all those beliefs of African origin. The Church is strong on dogma, but it is far from strait-laced, and it shows a healthy, elastic attitude where basic human nature is concerned.

Catholicism absorbed some of the most deeply rooted features of the autochthonous religions of the New World. It was not as jealous and exclusive a faith as that of the Puritans. It could and did accept that

part of the Indians' religion which was part and parcel of their lives, past, present, and future. Even the Inquisition was more zealous in questions of dogma than it was in questions of the rules which guided the Indians in their day-to-day living. Where the faith of the Puritans was unbending, that of the Iberians was yielding and resilient. An example of the attitude of the Church, which can be considered typical, is seen in the pronouncement of the Bishop of Guadalajara in 1672:

Accepting as certain and demonstrated that the vices of drinking and drunkenness are natural to the Indians, and that they cannot be entirely remedied, the drink that is least injurious to their health should be permitted, even if they use it to excess and drunkenness follows. *Vino de cocos* is a beverage of this sort, for it is healthful when used in moderation. It is bad politics and worse economics to prohibit something intrinsically good because of abuse, for there is nothing in the world, be it ever so holy, that men through the corruption of nature do not abuse.

Many observances which are *de rigueur* to Roman Catholics in the United States are not enforced by the Church in Latin America. For instance, women in Brazil do not cover their hair when they enter a church. The eating of meat on Friday was never forbidden. The Pope centuries ago made a special dispensation for Latin Americans along with the Spaniards in that regard, and this dispensation has until recently been promulgated anew every ten years by the Bishop of Santo Domingo, Primate of the Americas. Of course, the Church here as elsewhere urges the faithful to attend its services, to give freely to its upkeep, and to learn the Catechism, but Catholics in Latin America do not feel that they are a minority group on the defensive. They are not struggling valiantly for sheer survival. The Roman Catholic Church in Latin America is able to relax, in matters of discipline, by virtue of its dominant and exclusive position. The faithful do not take life in general overseriously, and the same attitude is manifested *vis-a-vis* the Church and its representatives. Some of the juiciest scandals and off-color stories about the clergy are told with gusto and in full detail by devout communicants, who are in no wise shocked, for example, if their local priest has a comely "niece" who acts as his housekeeper.

It should never be forgotten that the Catholic faith is a living force in the daily lives of millions of simple people. I once started out in an ancient car for Valencia, Venezuela, from the desert capital of Barquisimeto, about a hundred miles away. I noted that the chauffeur, at the edge of town, stopped the car in front of a little statue to the Virgin,

placed a lighted candle in front of it, crossed himself, and commended himself to Her care. Twelve and a half hours later, after much engine trouble, several blowouts and a broken spring, we limped into Valencia. I must admit that I was travel-weary and hungry, and, as I got out of the car, my patience was at an end. In a voice full of sarcasm and poorly suppressed anger I remarked to the driver that his precautions in trying to placate the heavenly powers and have them work for him seemed to have been in vain. He looked up with a hurt expression, but then shaking his head indulgently as one would at a child who has said something naughty, the true impact of which was not realized, he muttered, "Señor, it was a miracle of the Most Holy Virgin that we arrived at all." There was an unmistakable tone of conviction and of finality in his voice, and, as I shook his hand, I readily and heartily agreed with him. I have been careful ever since to avoid *ad hominem* utterances on that aspect of life in Latin America!

The parents of a small child, traveling in a public bus, will often ask the driver to stop at a roadside shrine so that a candle may be lighted before—and vows made in the presence of—the image to the Virgin. The driver stops without a word and turns off the engine. A picture of the patron saint of travelers, lighted by a tiny electric bulb, hangs from his cracked rear-vision mirror. There is not a word of protest from the other passengers, who meanwhile could be getting wet, because it may be raining in torrents, the bus is without side curtains, and the roof leaks. The mother holds the baby while the father unearths a candle from a dirty bundle of clothes and foodstuffs, alights from the bus, and walks slowly to the shrine. He takes off his hat and bows silently to the Virgin before lighting the candle, which he then places in front of the image under the tiny roof. Later, with head still bared, he says a short prayer and crosses himself, before rejoining his wife and child in the bus. Everyone watches in silence this little drama of living faith. The reverential mood of the entire busload of passengers is broken only when the driver releases the brakes. The vehicle begins to move. It is soon lurching down the narrow mountain road, and its human cargo returns to the workaday world.

Latin American culture has been doubly handicapped by being so excessively dependent upon the Church and by being so jealously provincial as to be actively hostile to many stimulating influences emanating from abroad. That this culture owes a great deal to the Catholic clergy is not denied, but it does seem that a regime based on such strict control is incompatible with many phases of modern technical and intellectual development. Numerous outstanding personalities do find their field of

action in the Church, but many of those who wish to make their mark as laymen not infrequently feel impelled to break with the Church completely. Latin America has produced a great number of distinguished, often brilliant, individuals, but it has not always provided the atmosphere, or one might say the soil, from which a relatively large body of elite could be nurtured. Yet if Latin America is to achieve front rank in the arts, in science, and in general intellectual creativeness, such an elite, indigenous yet cosmopolitan, is essential. Many scientists, novelists, and artists who do make their mark frequently become *personas non gratas* to the political and religious leaders in their own countries. Thoughts or ideas from abroad are often held to be suspect. It is sincerely to be regretted that some countries of Latin America should at times deprive themselves of the living springs of intellectual inspiration, both those that well up within their own boundaries as well as those of foreign origin.

Honor and Personal Dignity

THE SPANIARD, as the *caballero andante*, was successful in implanting the doctrines of the Mother Church in the New World, whither he carried his exalted notion of personal honor as well. The Latin American is willing to make great sacrifices when appealed to in the name of his honor, and he can also be violent and cruel when he believes his honor or dignity to be offended. Suicides are very common among lovers—only thus can the rejected suitor erase the stain on his name. Murders or maimings are not uncommon by those who have had their or their family's honor impugned. Because of dignity it is unthinkable that a white-collar worker should do his work or be seen in the street without a coat and tie, no matter how sweltering the local climate. The sense of dignity of a maid of all work will cause her to remove her apron while sweeping the porch so that her status will not be obvious. One of the highest insults that can be spoken to a man is *Vd. no es nadie* (you are nobody).

An exalted sense of personal dignity is found in people of all walks of life as shown by the following incident. While in Bogota a few years ago I wanted to get my passport visaed for the Central American republics. Accordingly, I started out one morning by calling at the consulate of one of those countries. An emaciated, pimply-faced clerk, small and fiery-eyed, told me to come back between three and four in the afternoon when the Consul would be in. I did as he instructed me, returning at 3:30 P.M. and waiting for the Consul until 4:30 P.M. When the latter did not come I asked the clerk if it would be possible to pin down more ac-

curately the movements of the Consul. He looked up with a pained expression and asked if I did not believe him. I replied that I merely wanted my coming to coincide with that of the Consul. Then he shouted, "So you think I'm a liar, do you?" I assured him that I did not, that I had said nothing to warrant his drawing that conclusion. But by this time he was in a fury. His reason had blacked out and his emotion had taken over. He was trembling all over and pacing up and down. I protested again that he had misunderstood, but he could stand it no longer and, muttering imprecations to himself, he rushed into an inner office, banging the door behind him.

I decided to leave rather than be involved in further unpleasantness, or in what might develop into a really awkward situation or even a regrettable incident. But as I walked away I could not help trying to analyze the cultural and psychological factors behind this outburst. It seemed to me that when the clerk's thin veneer of personal dignity or honor had been rubbed off ever so slightly an ugly inferiority complex showed through. *Vis-à-vis* a relatively wealthy person, a Croesus in terms of his salary and a foreigner to boot, he felt that he was a nobody and that his job was a menial one. Further, he must have felt that this view was shared by his interlocutor. These feelings of inadequacy and inferiority, normally suppressed, kept him ever tense, always on the alert for an insult. If no offense was committed, one could still be conjured up in his mind. In other words, the clerk had a chip on his shoulder and eagerly awaited the first opportunity of having it knocked off—in fact, he was ready to lean over a bit so that it would the more readily start sliding off.

As I relived the scene in the nearest café over a cup of black coffee, I was well aware that I had been, to say the least, exceedingly tactless in what should have been a simple and pleasant human relation. Further, I had not, as it were, observed protocol. I determined to do what I then realized I should have done in the first place: that is, make arrangements with the busboy at the hotel—the universal procedure—to go to the various consulates and get all the visas. It is generally assumed that a person who travels has really important things to do. He cannot be bothered with having to wait in consular offices. The clerk had never before, perhaps, dealt directly with such a person. He was accustomed to meeting his peers, people of his own country and of his own station in life, many of whom were just as poorly paid and fed, as petty-minded, as psychologically warped, and as emotionally unstable as he himself. With them there could be no friction. They would understand each other. Their relations would be stereotyped.

I returned to the hotel, handed my passport to the busboy, gave him instructions as to which visas were wanted, and two days later, with all five visas duly affixed, it was returned to me by the clerk at the desk. The busboy was extremely happy with the few pesos he received as a reward for his services. It was of course no concern of mine that he probably did not himself do all the waiting in the consular offices. He quite possibly farmed the job out to a relative or to a friend who had nothing else to do and who was glad to do him a good turn and get paid a few centavos for two days during which he would otherwise have loafed.

Built-in concepts are on our side as well, without our realizing it. For instance, if one tells the fable of the patient, hard-working ant and the gay, improvident grasshopper to people with a Latin American background, one finds that the sympathies are all with the grasshopper. For the ant has stupidly given up enjoyments in order to be able to exist miserably through a winter, only to be compelled to work hard another summer. The grasshopper, on the other hand, has lived it up. He has sung and danced the summer away; he has enjoyed life, and dies when winter comes. But he has lived an understandably interesting life, and the Latin appreciates his values. A new hat or dress for a woman, or, for a man, an afternoon or evening spent with friends, is more valuable than money in the bank, half or more of the present value of which might be swept away by inflation within the year anyhow.

A nursery rhyme that has a line in it about a boy who "stuck in his thumb and pulled out a plum and said what a good boy am I" would be entirely lost on a Latin American listener of whatever age, for to him the puller-out of a plum would simply be a greedy boy. Under no circumstances could he be considered a good boy. There could be no extenuating circumstances: in the books of the Latin American, a greedy boy is a greedy boy is a greedy boy.

Legal-Mindedness

THE LATIN AMERICAN is everywhere by necessity legally minded. The social edifice rests upon the family and the partisan group, institutional forms more durable than the State itself. The State, political authority, is thought of as something superior to and outside of the individual, which can be seized by the crafty person and used as an instrument for enforcing his will. Therefore, the State is not looked upon as a beneficent institution, with the ideal of the greatest good for the greatest number, nor as necessarily motivated by good will toward the citizen.

Indeed the individual should be skeptical of the State's intentions and should seek to defend himself against its usurpations. The Anglo-Saxon considers the State as the expression of the common will and as the agent of the people. Not so the Latin American, who must have his position in relation to the State carefully delineated, who must have carefully worded laws so that his rights, defined in great detail, may be safeguarded. By the same token he has a long tradition of circumventing laws, and he is especially clever at avoiding the implications of regimenting or confusing red tape. He is not intimidated by rules and regulations of any kind, either by those which make sense or by those which are manifestly absurd. He finds ways of avoiding conformity, ever working on the principle so oft-practiced as to have become proverbial: *Se obedece pero no se cumple* (obedience in act but not in fact).

Personal Party Politics

THE LATIN AMERICAN, ardently interested in politics, sees political activity as a very personal matter. Sides are taken with apparent conviction and issues are fought over with a great show of passion. However, less attention seems to be paid to the public good, to service to the community, to collective welfare, than to a brand of politics in which personalities loom very large. One is for Sanchez or for Rodriguez instead of for the Conservative or Liberal Party. Discussions are violent, and the champions of this or that *causa* are eloquent indeed. But not infrequently the cause turns out to be a very personal affair, precisely for those who talk most about it.

The Latin American is nothing if not realistic. He does not try to "lose himself" fighting for an ideal or principle, but rather he gives of his time and energy to promoting or backing a person who will, whenever feasible, repay the support in a very tangible form. This is not to say that ideals and idealism do not exist. Latin America has produced vigorous fighters for ideals. One has only to mention Martí and Sarmiento, Cárdenas and Muñoz-Marin. Some of the most highly cultured men are in politics: German Arciniegas, brilliant essayist and historian, was Minister of Education in Colombia; the late Moises Saenz, Mexican sociologist and writer, became his country's Ambassador to Peru; Romulo Betancourt, political analyst and columnist, became provisional President, and later elected President, of Venezuela, and was succeeded in that office—in one of the first elections held in that country in many years—by Romulo Gallegos, world-famous novelist and writer on educational subjects. The list is long indeed.

But in general, politics seems to turn on a personal rather than on a

ideological axle. In view of the high incidence of illiteracy in Latin America, it is not remarkable that many of the caudillos, the strong men and dictators, are uncultured or even uncouth and semi-literate. But all of them without exception have felt the necessity of surrounding themselves with orators, lawyers, poets, and literati generally. Gabriela Mistral, Nobel Prize winner for her exquisite poetry, held various government posts in many parts of the world. The only unusual feature of her appointments was her sex, for Latin American women have up to the present time played a very minor role in the political life of their countries. There have, to be sure, been exceptions to this rule. Bolívar's mistress, Manuela Sáenz, exerted tremendous influence on the Liberator and thereby played a significant role in the stirring events of the revolutionary period. But she did not exert mass appeal. However, a more recent example, Eva Perón, not only had great influence over her husband but a tremendous following among the rank and file of the Argentine people, such as no woman has had in that country, or indeed in any other Latin country.

We glibly talk about dictators in Latin America, little realizing that most leaders there are "Constitutional Presidents," for when a man assumes office one of the first things he does is to call the members of Congress—all appointed by him—into session. The first official act they perform is to change the Constitution to make the newest incumbent President according to the Constitution. Hence he is a Constitutional President. And Latins are realistic enough to know that the President is indeed the Chief. He is often called the Supreme One, *El Supremo*, the Top Chief (*Jefe Maximo*), and so on. He is indeed *El Jefe Mandatorio*, the Chief Who Gives Orders. And his power is indivisible. It cannot be curbed by legislative or judicial bodies. As soon as it is, he is no longer President, or Prime Minister, whether he be a Trujillo, a Castro, a Cárdenas or a Figueres.

Coalition governments and military juntas are invariable short-lived because the several "chiefs" cannot agree among themselves as to whose decision is final, *i.e.*, they have to agree on who is to give orders. Even a man who is "Constitutional President" because of Army support must try to live up to the dictum that it is he who gives orders, and he *can* give them as long as the military leaders cannot decide on which one of them is to give the orders.

The Position of Women

IN LATIN AMERICA the place of woman is still in the home. The Moors either introduced into Spain the custom of the segregation of women or they strongly re-enforced the practice. In any case, this Oriental folkway

was acquired by the Spaniards whose attitude has been assumed by the great majority of Latin American males. Women's rights are only just beginning to come up for discussion. She does not have the vote and is, in most cases, considered a minor before the law. In the general pattern of relationships between the sexes hers is a passive role. The double standard everywhere prevails. A man comes and goes as he pleases and no questions are asked by any of his womenfolk as to his behavior in any field. He may drink and gamble and stay out nights, or he may, for instance, have one or several mistresses. Indeed, since there is present and available a vast reservoir of women of lower economic status whose unchastity is taken for granted, many men who can afford to do so—and some who cannot—have mistresses. As a consequence, a high percentage of children is born out of wedlock, many of whom are recognized and supported by their fathers, whose name they bear.

But there is a strict code of behavior for the upper-class married man with a family, *vis-à-vis* his mistress: she should not be publicly flaunted by being brought to dances or group festivals; she should be visited via back streets, preferably at night; she should not be greeted by her lover when he chances to meet her on the street during the day. But the same man insists with the fervor of an Oriental on the purity of his legitimate wife, whom he guards closely. His wife and his children—his daughters—are his badges of social respectability and must be carefully shielded from the tarnish and corruption of the world, so that they can stand, in their purity, in their innocence, and in their naïveté, as living symbols of the man's fundamental ideals, no matter what his actual behavior.

The Latin and the Anglo-Saxon attitude toward women is clearly brought out in the following statement, in which Admiral Henry Morgan explains his disposition of prisoners taken during his capture and sack of Panama:

We further declare to the world that in all this service of Porto Bello, we lost but eighteen men killed and thirty-two wounded, and kept possession of the place thirty-one days; and for the better vindication of ourselves against the usual scandals of that enemy, we aver that having several ladies of great quality and other prisoners, they were proffered their liberty to go to the President's camp, but they refused, saying they were now prisoners to a person of quality, who was more tender of their honours than they doubted to find in the President's camp among his rude Panama soldiers, and so voluntarily continued with us till the surrender of the town and castles, when with many thanks and good wishes they repaired to their former homes.⁴

⁴ Information of Admiral Henry Morgan and his officers, Port Royal, Sept. 7, 1668. Quoted in *The Life of Sir Henry Morgan* by E. A. Gruikshank, (Toronto: Macmillan Co., 1935).

A nubile girl is carefully guarded, because her parents have perfect confidence in human nature and what will inevitably happen when "boy meets girl," unless the elders take precautions. Great is the power of the God of Love and simple is the impulse to obey him. For an upper-class girl to be chosen as the object of an eligible man's attentions is a temptation almost irresistible as far as her own will is concerned. Her love is blended not only with hope and enthusiasm but also with a large dose of resignation to an inescapable fate or higher power. Among those of upper-class status, age-old customs for separating men and women are strengthened by strict familial controls for effecting legal and ecclesiastical marriage for their daughters. The young girl cannot go out of the house without a chaperone, and she can talk to her swain alone only through the grating of the windows which give on the street. This is a very salutary coercive for the young man. He can talk sweet nothings with his beloved. He can gaze longingly at her and sometimes even hold her hands. But he cannot possess her without signing on the dotted line. He can sleep with as many others as his fancy, his purse, and his physical prowess permit—among the large body of women of lower economic status—but he still runs headlong into the unbreached wall of group folkways which decree that he marry *the* one, with benefit of clergy, in order to possess her. She is perfectly willing at any time to comply with his every desire as soon as the little formality at the church is taken care of. It is a common saying with Latin American men that they marry only those whom they cannot possess otherwise.

When you become friendly enough with a Latin American to be invited to his home and introduced to his wife and children, you are an intimate of the family. But the process may take years. In many cases this degree of intimacy is never reached at all. Even in the home, a woman's every action is closely watched, by children, servants, relatives, and neighbors. Strict protocol dictates the details of the pattern of her domestic and social life. For instance, a matron could under no circumstances, in the absence of her husband, have one of his male friends spend the night in her home, no matter what her age or the number of children or relatives living with her and no matter how august a personage the friend might be. Even if he had been an intimate of the family for decades it would not be correct for her to proffer him such hospitality. Latin America is still to a high degree a man's world.

Family

WHEN A LATIN AMERICAN greets you on the street, or in a letter or by telephone, he first asks after the health of the rest of your family and

wishes them well. One of his deepest feelings is that of blood relationship. He can trace his relationship to distant kin much more easily than most people in the United States where family solidarity is waning and where individual personality is being lost in the collectivity. As soon as a baby is born in Latin America, he begins the process of acquiring a strong sense of blood ties, which acts as a unifying web among the family group. Baptism of an infant usually occurs, if at all possible, when the child is a few days or a week old. Relatives, employers, or close friends are chosen as *padrinos*, or godparents, and they are responsible for the child's physical and moral welfare should anything happen to the parents. Sometimes godparents adopt the child if the parents die. Baptism insures that the tot will go directly to heaven if he dies before the age of seven. The child immediately begins to absorb the influence of the cultural complex into which he is born. As long as he is incapable of moving about he is with or near his mother. When he is not in a hammock or cradle, he is on her back, on her hip, in her arms, or at her breast. The baby lives the life going on around him, of which he is an integral part. From the beginning he is respected as an individual with his own personality and is treated as a welcome addition to the group. As soon as he or she can toddle around he or she wears—if anything at all for a few years—the very same type of garments which are worn by father or mother. He or she is not set off from them by distinctive dress.

Upper- and middle-class mothers believe in affection toward their children, in letting them do pretty much as they please. A child is cuddled and petted rather than allowed to get over a tantrum alone. The mothers spare the rod, laugh at childish tricks and mischievous pranks, and have a relaxed attitude toward their offspring when guests are present. Lower-class parents sometimes resort to spankings, a sandal or the leather sheath of the machete being the Latin American version of the old razor strap. But the children are generally loved and made to feel that they are wanted. Spanish has no word which is the equivalent in meaning to the English word "brat."

If children go to school, the new environment reflects rather than corrects the lack of discipline in the home. In the country, children help with adult tasks as soon as they are able. When the parents go for firewood in the forest the children go along, and when the family group returns the parents have a big bundle of wood on their heads and the children have smaller bundles, graded according to their years and size. If there are cows, the children soon learn to milk them, to drive them to

and from pasture, or to prevent them from entering unfenced fields. The children learn early to use the machete, to guide oxen, and to go to market on the donkey with the family's produce. In towns, poor boys help out their families by selling papers, shining shoes, and running errands. The son of an artisan sometimes learns his father's trade by watching him and helping him as he carves wood, cobbles shoes, or works at his forge. Problem children are rare since they are so early in life integrated into the life of the grownup.

The result is that the family or clan is a closely knit unit. If a person loses his job, falls ill, or gets into trouble, relatives come running to help, though they may not have visited him in a long time. The family acts as a kind of social security system against unexpected misfortune. Imppecunious members of a family, or the unemployed, can go to live with their in-laws, with a cousin, or with some relative who, with a job, a large ranch house, or an independent income, can afford to help them. If the wheel of fortune turns and the man now living on familial charity is in the chips again, then those out of luck can live with him.

Rules of hospitality to a relative are strict. I once lived as a paying guest in the home of a rancher in a village so small that there was no boarding house in which travelers could stay. A niece of the owner arrived during my short stay. When I returned from the field after seven months, the niece was still there but had moved into the large, desirable room with two big barred windows on the street. As I was being shown to a small room on the patio by the mistress of the house, she confided to me that she had no idea how long her niece was going to stay, but that any attempt on her part at trying to find out would be construed as showing a desire to have her leave and that would be downright tactless, violating all rules *vis-à-vis* a *pariente* (relative).

A social stigma attaches to sending one's parents to an old people's home. Most old people live with their children. In many cases the old grandfather, or grandmother, is the binding link of a large family group, or clan. They help to take care of the grandchildren and spend much time at Mass and in recalling old times over little cups of coffee. The role of grandparents in helping to bring up the children is recognized in the old proverb to the effect that children pay more attention to their grandparents than to their parents.

(Continued)

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The Swings in U.S. Exports

ALTHOUGH SLACKENING DOMESTIC DEMAND during recessions is commonly supposed to stimulate a country's export trade, this has not been the experience of the United States, according to a recent study by the National Bureau of Economic Research. Recessions usually led to an increase in physical volume sold abroad, but lower prices more than offset the gain in quantity.

The study, *Cyclical Fluctuations in the Exports of the United States Since 1879*, by Ilse Mintz, distributed by Columbia University Press, finds that exports of crude materials and semimanufactured goods do rise in periods of recession and fall with recovery as one would expect. However, the largest class of exports—finished manufactured goods—does not react in this fashion. This lack of response is attributed by Dr. Mintz to the relative ease with which the output of many manufactured goods can be adjusted to demand, and to the difficulties encountered in switching sales of highly specialized goods between home and foreign markets.

World demand for imported merchandise is the dominant factor accounting for the rise and fall of U.S. exports, according to Dr. Mintz. The swings in exports have been much larger in more recent business cycles than they were in earlier ones. She notes the striking contrast between the increasing instability of exports and the dampening of the domestic business cycle. [From the National Bureau].

First Effort at Tariff Cutting

SEVEN OF THE 53 countries that participated in the Kennedy Round of tariff-cutting negotiations which were concluded last summer have put the first stage of tariff reductions into effect, namely: Australia, Austria, Canada, Ireland, New Zealand, Switzerland, and the United States. Most of the others will put their initial reductions in effect this July, according to the General Agreement on Tariffs and Trade. Formal intention to take such action has already been announced by the 6 nations of the European Economic Community (Belgium, The Netherlands, Luxembourg, the Federal Republic of Germany, France, and Italy), and by 8 other countries (Denmark, Finland, Israel, Japan, Norway, Sweden, Trinidad and Tobago, and the United Kingdom.) [From the U.S. Department of State.]

Economic Thought in Talmudic Literature in the Light of Modern Economics

By ROMAN A. OHRENSTEIN

Introduction

"THE TIME HAS COME . . . for a trained economist to deal thoroughly with the economic side of the talmudic and rabbinic literature generally. . . ."¹

These challenging words were uttered by the eminent economist and scholar, Werner Sombart, as he took Max Weber to task for having underestimated in his *Protestant Ethic*² the prodigious share the Jews had in both forming economic concepts and in establishing modern business practices.

One might surmise that, in response to Sombart's daring challenge in 1911, the economic aspects of talmudic literature had already been probed. To be sure, the economic information contained in talmudic literature has aroused the scholarly curiosity of many a sociologist and historian, philosopher and theologian, moralist and legalist. Principally, some of the *legal* studies shed considerable light on rabbinic-social teaching. But there is very little material on the socioeconomic doctrines of the rabbis.³ His observation, therefore, is still as valid and timely as the morning newspaper.

¹ Werner Sombart, *The Jews and Modern Capitalism*, trans. by M. Epstein (London: T. Fisher, 1913), p. 313.

² Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. by Talcott Parsons (New York: Charles Scribner's Sons).

³ See Salo W. Baron, *Essays on Maimonides* (New York: Columbia University Press, 1941). Professor Baron's essay on "The Economic Views of Maimonides" was acclaimed by the late Professor Simha Assaf of the Hebrew University in Jerusalem as a wholly pioneering effort. Not much has been added to the literature since; earlier Dr. S. Ejges attempted to systematize monetary theory and practice according to talmudic sources in *Das Geld in Talmud* (Wilno, 1930).

As examples of noteworthy historical and legal studies we call attention to *Urban Civilization in Pre-Crusade Europe*, by Irving A. Agus (New York: Yeshiva University Press, 1965). In its two volumes the author draws attention to the wealth of primary source material in the rabbinical responsa literature during the Middle Ages. It is an invaluable source of information for those who are interested in economic history. Also, Boaz Cohen, *Antichresis in Jewish and Roman Law* (New York: Jewish Theological Seminary of America, 1950).

The legal studies which appeared before 1930 are listed by Samuel Eisenstadt in his bibliographical handbook, *Eyn Mishpat* (Jerusalem: 1931).

Among some of the recent publications which treat the subject from an ethical and sociological point of view, see Ben Shemen, *The Jewish Attitude Toward Labor*, in Yiddish, Vol. I and II (Toronto, 1963); in particular Leo Jung, *The Rabbis and the Ethics of Business*, The Jewish Library, Vol. VI (New York: Soncino Press, 1964). Also, *Judaism and the New World Order* by the same author, *American Journal of Economics and Sociology*, Vol. III, pp. 385-93, and Vol. IV, pp. 515-28. Both articles appeared in 1945.

The merits or demerits of Sombart's thesis that the Jews were responsible for the rise of modern capitalism will not be discussed here. His postulates have been challenged and his doctrine has been refuted.⁴ There is, nevertheless, a tendency to reexamine Sombart's thesis objectively, free of his emotional bias. Thus it will be worthwhile mentioning that in a recent publication in which the "characteristics of the American Jews" are analyzed, one of the authors, Nathan Glazer,⁵ accepts Weber's doctrine of the *Protestant Ethic* but applies its criteria to Jews as well, which in essence is a restatement of Sombart's thesis.

It may, therefore, be a matter of great interest to students of economic thought as well as to the talmudic scholar to investigate the economic thinking embodied in talmudic literature and its modern application. Accordingly, I shall attempt to analyze several of the numerous economic concepts as they are formulated in talmudic and rabbinic sources with an eye on their contemporary significance.

Before we analyze some of the economic insights in talmudic and rabbinic literature, a word about the background and methodology of the *Talmud* itself becomes necessary.

The *Talmud* (200 B.C.E.—500 C.E.) is an encyclopedic library. It comprises 63 tractates (with some minor tractates as an appendix). In addition there is the Midrash, or rabbinic commentaries, which like the *Talmud* is partly *Halakha* (legal) and partly *Haggadah* (homiletical). They deal with practically the entire gamut of human endeavor.

The *Talmud* is characterized by interminable discussions, disputations, arguments, and counter-arguments. Disjointed and unsystematized as it may sometimes appear, the "rabbinic mind" is coordinated by a complex system of so-called "value-concepts" which embody a conscious "drive toward actualization and concretization"⁶ of those abstractions in daily life.

In order to follow the reasoning of the "rabbinic mind" or to discern the attitude of the talmudic doctors toward a given problem, one must meticulously "discover" the scattered, often inconspicuous "sparks," put

⁴ See Nathan Reich, "Capitalism and the Jews," *The Menorah Journal*, Vol. XIII, New York (January, 1930); H. M. Robertson, *Aspects of the Rise of Economic Individualism* (Cambridge: The University Press, 1935); S. W. Baron, "Capitalism and the Jewish Fate," *The Menorah Journal*, Vol. XXX (July–September, 1942).

⁵ Joseph L. Blau, Glazer, Handlin, and Stein, *The Characteristics of American Jews* (New York: The Jewish Education Committee Press, 1965), p. 42.

⁶ Max Kadushin, *The Rabbinic Mind* (New York: Jewish Theological Seminary of America, 1952), p. 85.

himself into the analytical frame of mind of those who coined those "concepts," and then sift the material and examine it carefully with an open mind. The pattern of the talmudic tapestry is highly complex, particularly in its economic dialectics. This incidentally is also true of Greek and Roman exposition when dealing with economic questions.

The Concept of S'khar B'teilo or "Lost Time"

THE TALMUDIC DOCTORS as well as the subsequent rabbinic codifiers saw life's phenomena functioning within a religious framework. As a result business matters were treated primarily from a religious point of view. This, notwithstanding the analytical quality of their exposition, is intellectually fascinating and often scientifically profound. Such, as we shall soon see, is the case regarding the concept of *S'khar B'teilo*, or "lost time."

For the sake of clarity I shall first state the religious law pertaining to our discussion, trace its origin, analyze its economic significance, and then compare it with modern economic thought.

The law of *S'khar B'teilo* states that theoretically a religious teacher, or judge, may not be compensated for his work, since one ought not to professionalize the Torah; namely, one must not derive material benefit from sacred lore (Torah). Yet for all practical intents and purposes the law was liberalized so as actually to permit a remuneration for a teacher, etc.⁷ The reason for the liberalization of this rule is explained in terms of *Agar B'teilo* (which is the Aramaic equivalent of the Hebrew *S'khar B'teilo*), meaning that the compensation in question is in payment for a teacher's "lost time."

It is noteworthy, first, that the *time element* is viewed here as an economic quantity—a concept which Alfred Marshall, the Cambridge economist, utilized at the turn of the century as he helped to forge the modern theory of supply and demand. Second, the time which the teacher loses focuses our attention on the problem of "scarcity," in the sense that if he devotes his time to the production of thing X (teaching), he is forced to decrease or forego the production of thing Y, say, digging ditches.

Thus the doctrine of "lost time" may be considered synonymous with the modern concept of "foregone opportunities" of the so-called "alternative cost ratio"—a very important quantity applicable to any economic system, no matter how complicated.

⁷ Arukh 11a-Shulhan, *Hilkhot Talmud Torah*, p. 246.

The Origin of the Law

THE ORIGIN OF THIS LAW is discussed in the *Babylonian Talmud*.⁸ It is interesting, however, that the basis of this concept of *S'khar B'teilo* can be traced to the *Jerusalem Talmud* (1-5 C.E.) where as a point of departure from the established rule the *Talmud* states: "V'khein khamiya nosvin agreyhon, amar Rav (Yodin B'rab) Yishmael, S'khar B'teilon heim notling." (We can readily observe that instructors actually do receive compensation, to which Rabbi Yishmael [second century] remarked: "They are being compensated for their loss of time.")

The implication of this statement is obvious. Time is scarce and human resources are limited. Information, knowledge, and intelligence, for instance, are limited. If knowledge were unlimited there would be no opportunity cost. We could then have our cake and eat it too, because no sacrifice would be involved.

Let us now examine how the talmudic term of "lost time" has evolved so as to assume contemporary significance. For clarification of the meaning of the term we shall have to turn again to the *Babylonian Talmud*, this time to the *Tractate Kiddushin*⁹ where (in connection with another legal case) the term *S'khar B'teilo* is explained as being "a compensation for suspended work."¹⁰ Thus, in our own case, a teacher may be compensated for giving instruction because of the sacrifice he is incurring by foregoing other work for which he would have been compensated. While we hope we have indicated the exact meaning of *S'khar B'teilo* something is still missing—a definition. That was later formulated by Rabbi Obadio Bartinoro (fifteenth century). He clearly defines the concept of "loss of time" as: "*khamo mafsid m'bitul m'lakhte*," namely, "How much would a teacher have lost (or could he have earned) had he engaged in other gainful employment?" Thus a *monetary* or market value is assigned here equal to his sacrifice, or the amount he could have earned in other alternative uses of his time.

It is noteworthy that roughly a century later, Rabbi Joseph Karo further crystallized the principle of "loss of time" in terms of *Masso-Mattan*, or "business dealings," as if to make it completely clear that in those foregone opportunities, resources are in fact a heterogeneous collection of fac-

⁸ *Babylonian Talmud*, Tractate Nedarim, p. 37a, where Rabbi Nissim Gerondi (1320-1380), the commentator, quotes the *Jerusalem Talmud* as the source. For the *Babylonian Talmud*, see *Talmud Bavli* (Wilno: 1911, Room Ed.); or Isadore Epstein, ed., *The Talmud* (London: Soncino Press, 1938).

⁹ *Babylonian Talmud*, Tractate Kiddushin, p. 16b.

¹⁰ See Rashi's explanation (11th century), *ibid.*, p. 16b; also, *Tractate Baba Mezia*, p. 68b.

tors of production of many *different* kinds whose common characteristic is their scarcity.

Moreover, the *Talmud* also seeks to establish the monetary equivalent of foregone opportunities. In *Baba Mezia* (76b-77a) a precedent is woven around a legal question. It pertains to an entrepreneur who engages workers to transport a cargo and the subsequent cancellation of the agreement. The question then arises whether the workers may claim compensation for the loss they incurred. After a thorough examination of the various conditions surrounding the agreement and after having fixed the responsibility of each party for the breach of the contract, the debaters arrive at a consensus that the monetary compensation for the workers' lost opportunity will vary according to the circumstances and the degree to which they implemented the agreement.

For examples of a monetary equivalent of opportunity cost discussed in the *Talmud* it will suffice to present the following:

- a. *Compensation in full*—particularly in a situation where the workers had already brought their implements and materials to work; or, as in the case of the *Maboza* teamsters to whom idleness is a trial.
- b. *Partial compensation*—the equivalent of which is a *Poel Botel*, namely, How much less than the usual wages would a worker be prepared to accept in order to enjoy a leisurely rest?

Two points are then of special significance:

- a. Foregone opportunities have a specified monetary equivalent.
- b. *Leisure*, according to the *Talmud*, has a price and is treated as an economic quantity.

In summary, we may well say that the talmudic concept of "lost time" clearly implies that there exists an economic cost, namely, the value of sacrificed alternatives on the part of a worker, judge, or teacher as they engage in one undertaking at the expense of another. Should either of them not be compensated he would obviously have to forego a better alternative in favor of a worse alternative.

How does this concept of *S'khar B'teile* compare with modern economics? In answering this question let us see how von Wieser, famous for the doctrine which came to be called the "opportunity cost" principle, explains his concept of costs.

Whenever the business man speaks of incurring costs, he has in mind the quantity of productive means required to achieve a certain end; but the associated idea of a sacrifice which his effort demands is also aroused. In what does this sacrifice consist? . . . The sacrifice consists in the exclusion or limitation of possibilities by which the other products might have

been turned out, had the material not been devoted to one particular product. Our definition in an earlier connection made clear that cost-productive-means are productive agents which are widely scattered and have manifold uses. As such they promise a profitable yield in many directions. But the realization of one of these necessarily involves a loss of all the others. It is this sacrifice that is predicated in the concept of costs; the costs of production or the quantities of cost-productive-means required for a given product and thus withheld from other uses. . . .¹¹

In a word, the entrepreneur who produces something for the market gives up the opportunity to produce or sell alternative commodities. It is agreed that the "terminology of the economists is not uniform"¹² but the significance of the foregoing is invaluable in economic theory and practice.

Thus, the ancient talmudic concept of *S'khar B'teilo* is a precursor of the modern concept of opportunity or alternative cost, both in form and substance with all its economic implications. The ancient concept also embodies the further refinements of the opportunity cost concept by the Marginal Utility School in economics, notably in the Walrasian concept of opportunity cost and in von Wieser's formulation of the "Law of Cost."

Industrial "Laissez-Faire" and the Price Mechanism

THE TALMUDIC DOCTORS have manifested a keen understanding of the economic forces of supply and demand and had actually encouraged a competitive price system as a regulatory mechanism of the market. This analytical reasoning is well illustrated by a talmudic debate on this subject.¹³

Supply and Its Ramifications. The discussion evolves around the question of whether or not *sellers* may use competitive devices such as:

- a. Sales promotion (distributing treats to children) for the purpose of luring more customers to buy their product.
- b. A reduction of prices to increase their sales.

The former deals with a device in *non-price competition* which is a sort of advertisement. The latter is clearly an exercise in *price competition*.

We shall consider the two parts of the above clause separately. With regard to competition through sales promotion, R. Juda¹⁴ is of the opinion

¹¹ Friedrich von Wieser, *Social Economics* (1914). A. Ford Hindrichs, trans. (New York, 1927), p. 128. It should also be noted that it was the American theorist H. J. Davenport (1861-1931) who introduced the term "opportunity cost" (*The Economics of Enterprise*, New York, 1913) to designate the best opportunity which would have to be foregone below the margin of realization.

¹² See Paul A. Samuelson, *Economics* (New York: McGraw-Hill Co., 1964), p. 458.

¹³ *Babylonian Talmud, Tractate Baba Mezia*, p. 60a-b.

¹⁴ *Babylonian Talmud, Tractate Baba Mezia*, p. 60a.

that such must not be allowed because this is an allegedly unfair trade practice which is bound to hurt one's fellow entrepreneur. The Sages¹⁵ (Chachamin), however, permit sales promotion because the one who engages in this form of competition can challenge his business opponent to follow suit. Clearly the Sages here favor vigorous non-price competition.

As for price competition, R. Juda again opposes such practice for the stated reasons, whereas the Sages not only favor it but consider such activity a "blessing." The Sages substantiate their view by asserting that price competition is generally healthy because it is instrumental in causing "an expansion of the market," (*i.e.*, competition "eases" the market).

It is interesting how, according to commentators, "an expansion of the market" will develop: the initial price reduction in question will cause the "wholesalers" to become concerned with a possible change of the market price. This, in turn, may force them to deplete their stock which will surely be accompanied by a further reduction in price.

In this connection what is particularly noteworthy is *that* which motivates the "wholesalers" to dispose of their supply at the current price; they are concerned lest prices may drop even further. Thus an intangible variable is recognized by the Sages as playing an important role in the formation of a market price—the *psychological* factor.

Mention should also be made of the immediate ensuing discussion. It pertains to another competitive device—to catch the customer's eye through making the product externally attractive by painting designs on it, by fancy wrappings or attaching other adornments. This is what modern economics describes as competition through *product differentiation*.

To summarize: the talmudic scholars employed analytical criteria in dealing with the market forces of supply and demand. They advocated a competitive price system as a regulatory mechanism of the market.¹⁶ They could clearly distinguish between price and non-price competition as an instrument of vigorous competition. They were also cognizant of the role of product differentiation as well as of the psychological factor and of other evidences of imperfect competition that play a vital role in the determination of the market price.

Demand and its Ramifications. The preceding analysis dealt with various elements of competition and price determination viewed from the supply side. We will now consider demand in the light of talmudic literature. Extremely interesting is the fact that the demand factor is

¹⁵ *Ibid.*, p. 60a-b.

¹⁶ Compare; Maimonides—Mishneh Torah, Mekhira, 18, 4.

viewed by the *Talmud* as playing an active role as a price determinant. The following episode¹⁷, will illustrate the point:

It came to pass that the price of a couple of birds (frequently used in Jerusalem as the poor man's sacrifice) rose to one gold dinar. (One gold dinar had the exchange value of 25 silver dinarim.) As a result of this prohibitive price few people could afford such luxury. So R. Gamaliel vowed not to rest until the price of a pair will be reduced to one silver dinar, that is $1/25$ of a gold dinar. In order that this come to pass he decided to reduce the *demand* for that product. This was facilitated by the Talmudic Academy which ruled that one sacrifice may take the place of the usually required five. The ratio then was 5:1. As a result of this ruling the demand actually fell and was followed by a spectacular dip in prices. The very same evening "a pair" could be obtained for a quarter of a silver dinar, that is $1/100$ of a gold dinar, by far exceeding R. Gamaliel's expectations.¹⁸

This remarkable episode, which occurred during the first century C.E., conveys an important lesson in economics. To phrase it in modern terminology, R. Gamaliel demonstrated that originally he was dealing with a case where an excess demand was pressing against a limited supply. When the demand was reduced or, to use a more precise description, when the "quantity demanded" had changed (5:1) the effect on the price was remarkable. By the same token it implies that demand can also be elastic¹⁹ and when it is and is changed, the price can be appreciably affected. In any event, demand as a price determinant was clearly recognized by the talmudic scholars.

If we consider the fact that up to modern times the factor "demand" was generally overlooked in price analysis and that penetrating analysis of demand did not come until the end of the nineteenth century, the talmudic insight of the role of demands as a price determinant is indeed remarkable.

Scarcity. Scarcity as a fundamental fact of life has been recognized since time immemorial. It is best described in the biblical book of *Genesis*. When Adam and Eve were expelled from the Garden of Eden, the Lord said to Adam: "... Cursed is the ground for thy sake; in sor-

¹⁷ *Babylonian Talmud, Tractate Keritut, 1: 7.*

¹⁸ Freely translated by the author from the original.

¹⁹ See *Babylonian Talmud, Tractate Baba Mezia*, p. 38a and Rashi, *San. 26a*. It appears that the talmudic scholars were familiar with the concept (though not with the term) of elasticity. For example, they seemed to have recognized that when the demand for a product was relatively small or fixed—as in the case of *Truma* (tithe) which only priests were allowed to eat—its market price was considerably lower than the so-called "common" product used by the general public. The reason given for the low price of "tithe" was that its demand (elasticity) is characteristically low on account of its limited use.

row shalt thou eat of it all the days of thy life. Thorns and thistles shall it bring forth to thee; and thou shalt eat the herb of the field. In the sweat of thy face shalt thou eat bread. . . ."

Evicted from the biblical utopia, man has come to realize instinctively or consciously that, in order to satisfy his material wants, he would have to wrest his bread from the earth in the sweat of his brow. He was thus compelled to come to grips with the problem of nature's niggardliness and its inhospitable environment. To achieve want satisfaction, man must play an active role. He must produce goods and services.²⁰

The *Talmud*, as we have already shown, is well aware of the concept and significance of scarcity. However, the term "scarcity" is employed there in a more specific sense, thus providing a theoretical frame relevant to contemporary realities. Accordingly, the *Talmud*²¹ makes a distinction between two such scarcities:

- a. *Batzoret*—meaning a scarcity that arises from structural causes which is precipitated by a natural deficiency.
- b. *Kafna*—meaning a scarcity that results from a negative shift in the total supply, eventually resulting in a famine.

The former is characterized by a shortage originating from a "minor" defect in the area of production, thus affecting distribution. Its significance lies in the fact that no absolute change occurred in the quantity available; there was no change in the aggregate. For instance, the agricultural sector, let us suppose, has produced its normal yield and the distance between markets is relatively insignificant.²² Yet on account of an obstruction in the transportation system the distribution of the harvest may be affected. As a result of the local shortage in agricultural products they will have to be imported from neighboring areas. Hence it is likely that the price level will rise, at least on account of the added transportation costs.

The latter is more serious in nature. Its chief characteristic is the occurrence of a drop in the total supply either because of a severe drought or because of major obstacles in the transportation system where the distance between markets is considerable, as between different countries.²³ In any event, the supply has drastically changed in a negative direction.

²⁰ Ely Ginsburg, "Studies in the Economics of the Bible," *Jewish Quarterly Review*, N.S., Vol. 22, No. 4 (April, 1932).

²¹ *Babylonian Talmud, Tractate Toanit*, p. 19b.

²² See *Tossafoth, Tractate Taanit*, p. 19a. (The *Tossafoth*, a composite commentary by the disciples of Rashi (died 1105), supplemented that of their master.)

²³ Historically, most of the freight transportation in antiquity took place via rivers or canals and, when the water level dropped considerably, it narrowed the channel and thus caused a navigation bottleneck.

To use a more technical description, the supply curve has shifted upward and to the left. Although in both instances the immediate effect may be similar—a shortage in the supply of necessary goods—yet, since they vary with regard to the long-run effect, their status, in the opinion of the talmudic scholars, is different just as the remedies must be different.

In essence, the Bible describes the phenomenon of scarcity in general, perhaps in philosophical terms, whereas the *Talmud* treats it also from an economic point of view. The approach of the *Talmud* is analytical. Accordingly, the term *Batzoret* may be defined as “a temporary shortage in the commodity market precipitated by a defect in another economic aggregate.” However, when a negative change has occurred in the *total* supply, the economy has reached a point of crisis where emergency measures must be applied.

Scarcity and the Quantity Theory of Money. Now that the concept of scarcity has been carefully defined, the talmudic doctors continue to probe deeper into the subject. Since, to them, scarcity refers to a shortage in the commodity market, they proceed to examine its relationship *vis à vis* another economic variable—money. In order to prepare the ground for unconventional economic thinking, R. Hanina (third century C.E.) first gives examples of typical cases involving scarcity: “If a *Se’ab* of grain costs one *Sela’* and is obtainable—it is ‘*Batzoret*’; but if four *Se’abs* cost a *Sela’* but are not easily obtainable then it is ‘*Kafna*.’ ”²⁴

In other words, when the price of a *Se’ab* (a measurement consisting of approximately 13 litre) has climbed up to a *Sela’* (one *Sela’* had the exchange value of four silver *dinarii*) this would indicate to him the existence of a shortage in the commodity market—which, in effect, is a manifestation of a deficiency in the supply. However, when the situation is reversed and four *Se’abs* cost only one *Sela’* while the commodity is not easily obtainable, this would call for emergency measures.

At first glance Hanina’s statement appears to be not only vague but also illogical. How is it conceivable in the latter instance for a commodity to drop 400 per cent in the price and yet be unobtainable, while a 400 per cent upsurge in the price in the former instance would still make it available.

To remove this seeming inconsistency R. Johanan (middle of third century) then provides us with new insight when he qualifies and explains Hanina’s statement: “This applies only in a situation when money is cheap and commodities are dear, but when money is dear and commodities are cheap a state of emergency is declared at once.”²⁵ In other

²⁴ *Babylonian Talmud, Tractate Taanit*, p. 19b.

²⁵ *Ibid.*, p. 19b.

words, R. Johanan elucidates that the mere fact that one "measure" costs as much as a Sela' or that the price has dropped by 400 per cent does not by itself reveal the true nature of scarcity. Inasmuch as other economic variables are in operation, they could make it appear that a real shortage exists when in reality no shortage exists. The real reason for the fluctuations in the price level might well have been the price inflation and price deflation which in effect is a quantitative problem.

Johanan then displays sophisticated thinking when he distinguishes between various phases in business. He differentiates between "a phase when money is cheap and commodities are dear and the phase when money is dear and commodities are cheap." He, in effect, differentiates between prosperity and depression. Moderns call it the business cycle. And so, in times of prosperity, R. Johanan reasons, "business is brisk" (as interpreted by R. Hananel, tenth century C. E.) and "personal income is on the rise." As a result, money tends to become "cheaper." Money is more in abundance and therefore more easily obtainable. When this happens the *quantity* of money increases which in turn pushes prices upward. Thus, in Hanina's example, if the rise in price has occurred during the phase of prosperity, it was due to a quantitative relationship between the rising incomes and rising prices; since personal income rose, prices rose too. That would not call for emergency measures.

Not so during a depression. For "money is then dear," says R. Johanan. As business is declining so does personal income. "Money becomes dear and commodities cheap." That means that even though commodities appear to be "plentiful," few can aspire to buy them for want of a penny. To prove his point R. Johanan relates a striking personal experience: "I distinctly recall," he reminisces, "when one could have obtained *four* measures for one Sela', yet people were starving in Tiberias for want of a penny (an isar)."

It is evident that R. Johanan has refined the term *Batzoret* and impregnated it with profound meaning. *Batzoret* to him means price inflation. Accordingly, in times of prosperity prices may rise as much as fourfold, but so might personal income. Since a rise in prices is usually accompanied by a period of prosperity, price inflation (but not necessarily its consequences) does not constitute an object of grave concern. On the other hand, during a period of depression, prices may also drop fourfold while personal income, as we have seen, is affected to a much larger degree;²⁶ hence proclamation of a state of emergency may be justified.

²⁶ In a similar vein John Stuart Mill discusses the factors that determine the value of money; "An increase of the quantity of money raises prices and a diminution lowers

From the foregoing analysis there emerges three distinct aspects which have important bearing upon modern economic thought:

- a. According to R. Johanan there exists a quantitative relationship between money and prices.
- b. As interpreted by R. Hananel, this relationship is a product of income, where a change in income causes a change in the quantity of money in circulation.
- c. There are up and downs in business activity that accompany those changes.

It is particularly significant that in R. Johanan's approach we find the theoretical ingredients suggesting a quantity theory of money. It is therefore not far-fetched that in essence this approach corresponds to the simple "quantity theory of money" as expounded by Jean Bodin in the sixteenth century, advanced by Cantillon in the eighteenth century, and developed by men like Thornton, Ricardo, and Mill in the nineteenth century. Today we call it the "crude quantity theory of money." In essence, it maintained that money stock changes lead to proportionate price-level changes. Its basic principle is that "prices vary directly with the quantity of money in circulation and inversely with the total volume of goods sold." Whereas R. Johanan maintains that "there are times when money is cheap and commodities are dear (price inflation) and times when money is dear and commodities 'plentiful' " (price deflation). In principle, both ideas seem to be identical.

Moreover, in certain respects we can well discern in Johanan's version a more sophisticated approach than in the "crude" notions of Cantillon and the nineteenth-century economists. For instance, the "crude quantity theory of money" maintained, as we have seen, that changes in the money stock lead to *proportionate* changes in the price level. Whereas Johanan, in his example of the depression in Tiberias, clearly demonstrates the existence of a *disproportionate* relationship between the quantity of money in circulation and the market price, where its variability is a function of general business conditions. Johanan's conception, then, appears to be more in consonance with the refined or sophisticated theory of the quantity of exchange.²⁷

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them. . . . Thus if other things remain unchanged, an increase in the supply of money will increase the demand for goods by an equal amount and this will lead to a rise in prices." *Principles of Political Economy*, Ashley Edition (London: Longmans, and Green and Co., 1909), p. 495.

²⁷ Irving Fisher, *The Purchasing Power of Money* (New York: The Macmillan Company, 1911).

Theoretical Foundations of Neo-Institutionalism

By LOUIS J. JUNKER

INSTITUTIONAL ECONOMISTS are not and never have been unconcerned with problems of the allocation of resources, prices and price movements, markets and market structure, and other subjects usually taken to be the domain of standard economic theorists. The former are sometimes charged with this disinterest because they often reject the premises and the method by which these subjects are treated in the orthodox liturgy. It is clearly on the foundation level that instrumentalist-oriented institutional economists have objected to the orthodox treatment of basic theory on at least three major grounds:

1. They have objected to the orthodox assumptions about the nature and derivation of human nature.
2. They have objected to related assumptions about culture and culture change.
3. And, most certainly, they have objected to the assumptions of the economic theorists about value.

Under the goad of related social disciplines the informed institutionalist has tried to reexamine and rewrite assumptions and in so doing the foundation of his approach has changed radically from that used in orthodox methodology. His different approach culminates in his utilization of the "Veblenian Distinction" as a tool for social analysis. The distinction between technological (or instrumental) behavior and institutional (or ceremonial) behavior is not always intellectualized and utilized in a manifest manner even by institutional economists, but it is nevertheless often implicit in the character and operation of institutional analysis itself.

This essay, then, is an attempt to indicate some of the foundations of the instrumentalist-institutionalist position so that an increase in the level of awareness can make possible more control over the forthright revision of economic theory it suggests.

One of the first hurdles one must get over in the process of communication is the fact that some words can act as deterrents to agreement. The word "Neo-Institutionalism" may be one of these. I therefore propose that we entertain a rough working definition of this hyphenated word as meaning the combined elements of American Institutionalism and Ameri-

can Instrumentalism.¹ Both of these intellectual movements, to greater or lesser degrees, have influenced the better known institutional economists. During his Chicago years (1892–1906) Thorstein Veblen came into contact with the most productive members of the pragmatic movement, especially Dewey, Mead, and Tufts. Stanley Daugert recognizes Veblen's thought as a "variant of the philosophy and psychology of William James and John Dewey and their followers."² Certainly Mitchell³ was deeply influenced by these two intellectual forces, and there is good indication that Commons respected Dewey's work but was probably more thoroughly influenced, especially in his earlier works, by C. S. Peirce.⁴

However much these men were influenced by the pragmatic-instrumental position, the most explicit linking of these two intellectual movements (institutionalism-instrumentalism) into a permanent bond has been carried through by C. E. Ayres when he treated them as a "single body of thought,"⁵ and even as "the working out in various directions of the implications of a single idea or intellectual principle."⁶ The most devoted and scholarly attention to the theoretical development of instrumental economics is almost singlehandedly the work of Clarence Ayres, with Veblen and Dewey the basic forces always operating in the background. A good reason, it seems to me, for limiting this paper to the ideas of these men is the belief that if their ideas are clarified, that which is most valuable in the work of other institutionalist thinkers will become clearer.

I

IN SPITE OF THE theoretical broadening that institutional economics has undergone many analysts still view this body of thought as the work of narrowly avowed disciples of Veblen, Mitchell, or Commons. Since relatively few economists openly take the vows of strict discipleship the conclusion drawn by these analysts is that the institutional school is "dying"⁷

¹ Marc Tool, *Neo-Institutionalism: Veblen, Dewey and Ayres*, an unpublished Ph.D. thesis, University of Colorado, 1953. I must admit that the prefix "Neo" is somewhat vitiated for me by recognition of the close linkage between institutional economics and pragmatism from its earliest periods of growth.

² Stanley Daugert, *The Philosophy of Thorstein Veblen* (New York: Kings Crown Press, 1950), p. 4.

³ Lucy Sprague Mitchell, *Two Lives: The Story of Wesley Clair Mitchell and Myself* (New York: Simon and Schuster, 1933), p. 84.

⁴ Kenneth Parsons, "John R. Commons' Point of View," *The Economics of Collective Action* (New York: Macmillan, 1950), p. 343.

⁵ C. E. Ayres, "The Gospel of Technology," *American Philosophy Today and Tomorrow* (New York: Lee Furman, 1935), p. 36.

⁶ *Ibid.*

⁷ Lafayette G. Harter, Jr., *John R. Commons: His Assault on Laissez-Faire* (Corvallis, Oregon: Oregon State University Press, 1962), p. 249.

or is on the verge of becoming "extinct."⁸ But this conclusion has a built-in snare which may trap us into defending "school" and "institutional" as narrowly defined labels. The ideas of the institutionalists ought to define and delimit the labels—not the other way around. As ideas become more widely accepted they may lose their specific identification with the group that promulgated them, but this does not necessarily mean the group is being dissolved. It may mean the group is being expanded, while, at the same time, the labels by which it is identified are changing.

Perhaps these thoughts can help us to understand Ben Higgins' comment: "Professor Ayres and his fellows, it is now clear, have long been doing the sort of thing all 'development economists' now find it necessary to do."⁹ If Higgins' statement is true, it is impossible to take seriously the charge that institutionalism is dying because its methodology and subject matter have been "stolen" by the main stream of economics and sociology.¹⁰ The social sciences fructify each other. The institutional approach is itself a product of cumulative larceny and it has had its own impact on other social sciences as a victim of "stealing." The real trouble is that the main stream of economics has not encroached enough on the institutionalists and, further, that many institutionalists have not had enough real larceny in their souls with respect to all the other social disciplines. If there is one comment that should pass uncontested, it is that institutionalists in general, and especially Veblen and Ayres, have always emphasized the interdisciplinary character of the approach.

It could well be argued that Veblen and all those who followed his lead, directly or indirectly, constituted only a rough beginning, and there are some signs on the horizon that suggest an extension, growth, and application of the main position of which he was one important expositor.¹¹ But what kind of exposition do institutional economists engage in now?

⁸ Paul Samuelson, "American Economics," *Postwar Economic Trends in the United States* (New York: Harper, 1960), p. 37.

⁹ Ben Higgins, "Some Introductory Remarks on Institutionalism and Economic Development," *Southwestern Social Science Quarterly* (June, 1960), p. 16.

¹⁰ C. Addison Hickman and Manfred H. Kuhn, *Individuals, Groups, and Economic Behavior* (New York: The Dryden Press, 1956), p. XI.

¹¹ In one area alone—that of Economic Anthropology—a dynamic literature is being developed that should strongly enforce some basic institutionalist ideas. For example, see George Dalton, "Economic Theory and Primitive Society," *American Anthropologist* (February, 1961), Vol. 63 pp. 1-25; Marshall Sahlins, "Political Power and the Economy in Primitive Society," *Essays in the Science of Culture in Honor of Leslie White*, Dale and Carniero, eds. (New York: Thomas Y. Crowell Co., 1960), pp. 390-415; Karl Polanyi, et al, *Trade and Markets in the Early Empires* (Glencoe: The Free Press, 1957); and Polanyi, "Anthropology and Economic Theory," *Readings in Anthropology*, Morton H. Fried, ed., Vol. II (New York: Thomas Y. Crowell Company, 1959), pp. 161-84.

What were their concerns in the past? Surely it is true as charged that many were "overly suspicious of theory" and therefore concentrated on "practical problems."¹² But two questions must be raised here. What kind of theory were they suspicious of? Did they have any theoretical predispositions which others refused to allow under the label theory? On the former point institutionalists readily accept blame. They are and were suspicious of standard theory. On the latter point it will be urged that the main distinguishing mark of institutional economics—and the only primary thing by which the approach can be clearly distinguished—is its method and general theory. Veblen and Ayres are probably two of the strongest proponents of this general theory. But many elements of that theoretical position are often found to underlie the studies of practical problems carried out by institutional economists less directly concerned with advancing the general theory itself.

In his "New Look" at institutional economics in 1957,¹³ Kenneth Boulding indeed offers us a "Cook's Tour" of that subject, and the impression that one gets is that Professor Boulding is so taken up by the touring that he leaves little time for the necessary attention to understanding what he sees. He starts with the observation that institutionalism is essentially a movement of dissent,¹⁴ castigates Veblen for being a "dissenter of the sourest kind"¹⁵ and a generally destructive misanthrope whose sorrows were largely of his own making. Then, in an extremely narrow interpretation, Boulding summarizes Veblen's system as drawing on an "instinct psychology, a racist anthropology, a mechanistic biology, and an analogical sociology,"¹⁶ closing this portion by suggesting that such a combination could hardly present a durable system.

The main point in this part of Boulding's analysis seems to be that even if one can conceive any sort of system in Veblen's analysis it really isn't much of a system and it certainly is not an analytical system which can be the basis of any serious general theory of socioeconomic behavior. If he is taken seriously in his description of Veblen's system, he would, of course, be right.¹⁷ But surely no careful reader of Veblen would confuse his excursions into "The Blond Race" with his more general con-

¹² Lafayette G. Harter, Jr., *op. cit.*, pp. 252-3.

¹³ Kenneth Boulding, "A New Look at Institutionalism," *A.E.R. Papers and Proceedings* (May, 1957).

¹⁴ *Ibid.*, p. 1.

¹⁵ *Ibid.*, p. 2.

¹⁶ *Ibid.*, p. 10.

¹⁷ To be fair to the discussants in the 1957 meeting it should be made clear that they took Boulding to task on most of his major comments.

ception of the significance of the then infant science of social anthropology for economics. In his article, "Why Is Economics Not an Evolutionary Science?" Veblen favorably quoted a comment by M. G. DeLapouge that "anthropology was destined to revolutionize the political and social sciences."¹⁸ His more general dependence on anthropology is evidenced by his constant references to "traditions, conventionalities, and material circumstances,"¹⁹ to his conception of institutions as "settled habits of thought common to the generality of men,"²⁰ and to his conception of human nature quite explicitly evident in the following quotation:

... in the economic respect man has never lived an isolated, self-sufficient life as an individual, either actually or potentially. Humanly speaking, such a thing is impossible. Neither an individual person nor a single household, nor a single line of descent, can maintain its life in isolation. Economically speaking, this is the characteristic trait of humanity that separates mankind from the other animals. The life history of the race has been a life-history of human communities of more or less size, with more or less of group solidarity, and with more or less of cultural continuity over successive generations. The phenomena of human life occur only in this form.²¹

In all of these references one can most certainly discern what, in more up-to-date anthropological usage, we would refer to as "The Concept of Culture," and this is Veblen's more general orientation in spite of the fact that much of his language is couched in the language of "instinct theory" extant in his own day.²²

What is true of Veblen's work, in this respect, is true of institutional economics in general—the fact that there is more often than not a general recognition of culture as the master principle of social analysis.²³ It is this recognition that is truly at the heart of Veblen's method, but to say so is only to begin a long discourse, not to end it. Institutional economics did not associate itself with the cultural approach to human be-

¹⁸ Thorstein Veblen, *The Place of Science in Modern Civilization* (New York: B. W. Huebsch, 1919), p. 56.

¹⁹ *Ibid.*, p. 74.

²⁰ *Ibid.*, p. 239.

²¹ *Ibid.*, pp. 324–5.

²² For a perceptive and appreciative analysis of Veblen's point of view see C. E. Ayres, "Veblen's Theory of Instincts Reconsidered," *Thorstein Veblen: A Critical Reappraisal*, Douglas Dowd, ed. (Ithaca: Cornell University Press, 1958), pp. 25–37.

²³ For example, in John R. Commons, *Economics of Collective Action*, p. 152, we find "Social Valuation and activities are the matrix or data for individual valuation." His emphasis on "transactions," "social custom," and "collective action" all signify a cultural approach to economic behavior. So, too, with J. M. Clark, "Social Economics," Allan Gruchy, *Modern Economic Thought* (New York: Prentice-Hall, 1949), p. 342.

havior because Veblen did. Both did so simply because of the force of ideas, because of the growth of the intensity and cogency with which anthropology, sociology, social psychology, etc., have explained human behavior. In Veblen's day the revolution was in its first stages, but since then social change has spread and accelerated. We cannot expect Veblen to have taken the measure of the later upheaval, but we can try to understand that he detected the trend and, in an indirect way, outlined it with sensitivity and clarity, and with an extraordinary capacity for analyzing the older views of change and exposing their underlying pre-conceptions.

What is Veblen's method? What are its grounds and what is its direction? Is it meaningful as a way of looking at the world of affairs? Does it offer us a viable socioeconomic system? Most certainly Veblen would have rejected the contention of Professor Boulding that the "atomistic globule of desire" so penetratingly described by Veblen in his much quoted comment on the hedonistic conception of man²⁴ is a "workable abstraction."²⁵ Likewise he would have undoubtedly taken a jaundiced view of the notion that "the economist is concerned with the behavior of business units somewhat as a physicist looks at his neutrons and protons. Business concerns are the *basic particles*²⁶ of the economic world."²⁷

Veblen cuts deeper. Fundamental to his analysis is the distinction

²⁴ Veblen, *Place of Science*, pp. 73-4. "The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before."

²⁵ Kenneth Boulding, *op. cit.*, p. 11. In his brilliant recent book, *The Meaning of the Twentieth Century*, Boulding, in effect, reverses the interpretation in much of his 1957 article on Institutionalism in the A.E.R. Boulding, in my estimation, strongly aligns himself with the institutionalist-instrumentalist approach to economics. By his utilization of the "folk image"- "scientific image" dichotomy, and his explanation of the "accelerating acceleration" of science and technology, and by his image, inference, message approach to truth, Boulding vitiates his rancor against what he supposed was Veblen's position as of 1957. His recent impressive Ely lecture to the A.E.A. runs in the same vein. However, there was one disappointment to me in that lecture. When he named those scholars who have been concerned with the "Epistemological Question" in economics he could have easily included in that eminent list the name of C. E. Ayres who has devoted most of his life to that problem, and whose book, *Towards a Reasonable Society*, Boulding reviewed so favorably a few years ago. There are some important signs in *The Meaning of the Twentieth Century* that he took that book seriously.

²⁶ My emphasis.

²⁷ Lloyd Reynolds, *Economics: A General Introduction* (Homewood: Irwin, 1963), p. 2.

between "business" and "industry." However, while many economists realize this point, fewer recognize clearly that these concepts are specialized examples of a more fundamental and generalized distinction from which they derive, and which constitute the "basic particles" of Veblen's analytical position. The special forms of the dichotomy are varied. They include "sabotage—community serviceability," "competitive advertising—valuable information and guidance," "salesmanship—workmanship," but in all cases these specific examples revert to the basic distinction of "technology"—"institutions."²⁸ This basic dichotomy is central to Veblen's analysis, but it is likewise central to the work of John Dewey under the name "Instrumental-Ceremonial." There is no mysteriousness about its meaning. It might be described as two alternative ways of looking at truth—as Jacob Bronowski has presented the matter, of looking at the process by which truth is distinguished from falsehood. He puts the issue plainly:

There have always been two ways of looking for truth. One is to find concepts which are beyond challenge, because they are held by faith or by authority or the conviction that they are self-evident . . . [The alternative is that] The habit of testing and correcting the concept by its consequences in experience has been the spring within the movement of our civilization.²⁹

This way also might be described as a progression from the "sacred to the secular, from authority to efficiency, from status to process,"³⁰ or as transfer from "the stage of ontology to the stage of inquiry."³¹

Perhaps one of the best ways by which economists can focus on the issues at stake is through the examination of the concept of resources. There is a great deal of semantic double play and bad conjectural history being foisted on us by our fellows in the cloth, especially on the topics of technology and resources. John Due has written, "The factors of production which are provided by *nature* can be classified into two general groups: (1) the *capacity* of human beings to perform various activities and (2) natural resources—material objects which can be utilized directly or indirectly in want satisfaction."³²

²⁸ For a good survey of the many-faceted aspects of this basic dichotomy see Marc Tool, *op. cit.*

²⁹ Jacob Bronowski, *Science and Human Values* (New York: Julian Messner, 1956), pp. 60, 61.

³⁰ C. E. Ayres, *Towards a Reasonable Society: The Values of Industrial Civilization* (Austin: University of Texas Press, 1961), p. 279.

³¹ John Dewey and Arthur F. Bentley, *Knowing and the Known* (Boston: Beacon Press, 1949), p. 328.

³² John F. Due, *Intermediate Economic Analysis*, 3rd ed. (Homewood: Irwin, 1956), p. 6.

First of all, factors of production, properly conceived, are never provided by nature—they are man-made, man-used, and man-conceived. There are no socially learned *capacities* of human beings that are provided "by nature." To say this is a redundancy, though a useful one. Any capacity that is socially learned is in fact not provided by nature. In reference to the second part of the Due statement, one might begin by saying that the words natural and resource ought to be separated in the literature of economics. Only "stuffs" are natural, meaning by stuffs things that are involved in no pattern of resource use. I am not sure then what direct and indirect use refers to, but if indirect means that first we must devise some technological procedure for utilization of the resource, then I cannot conceive that this technological procedure is "provided by nature." The technological process is a cultural process, and this is the way that Veblen saw and understood it at a time when most economists were couching their concepts in "natural" terms. To Veblen the "question of natural resources is, after all, a question of technical insight."³³ But what does he mean by technical insight? How does Veblen view the general characteristics of the technological process?

II

VEBLEN CONCEIVED OF THE CULTURAL PROCESS as having two basic *aspects*, or *forms*, or *types* of behavior patterns, the one being technological and the other institutional. The technological aspect or type of behavior is the dynamic aspect of culture. It is at any particular time seen as a "joint stock"³⁴ which pervades the community and which is transmitted from generation to generation in a more or less continuous manner. Technology is conceived as a "cumulative"³⁵ sequence and this cumulativeness is a function of the principle that all tools are combinations of pre-existing tools. The more tools that exist the more combinations that are possible; therefore, the more tools that can exist.

It is in view of this general position that Veblen's comment on resources takes on meaning. Resources "become"³⁶ resources as a function of the development of technology, and certain materials may even fall

³³ Thorstein Veblen, *Absentee Ownership and Business Enterprise in Recent Times* (New York: B. W. Huebsch, 1923), p. 272.

³⁴ Thorstein Veblen, *The Engineers and the Price System* (New York: The Viking Press, 1932), p. 28; *The Vested Interests and the Common Man* (New York: The Viking Press), pp. 56, 57, 59; *Absentee Ownership*, op. cit., p. 64.

³⁵ Thorstein Veblen, *The Theory of Business Enterprise* (New York: Charles Scribner & Sons, 1904), pp. 368–9.

³⁶ Thorstein Veblen, *Absentee Ownership*, op. cit., p. 272.

out of the resource base as a consequence of this technological movement. Flint is an example. To shift from the conception of resources as "natural" to the conception of resources as a function of the state of the industrial arts and the full range of human knowledge (as strongly suggested also by the functional method of Erich Zimmerman) is to see the whole matter as a process rather than as a static condition. And that is exactly the point that Ayres and Dewey were making in their references to "process" and "inquiry." Whether the label be "atomistic globule" or "nature's" resources the conception is pre-Darwinian, as differentiated from the post-Darwinian concepts of men as creatures of culture and resources as a function of the developmental process of technology and science.

It is the principle of continuity that is part and parcel of Darwin's work, as opposed to the concepts of fixity, whether of nature or nature's men, and the terms pre- and post-Darwinian signify that revolution in our thinking. John Dewey fully realized this when he wrote, "In laying hands upon the sacred ark of absolute permanency, in treating the forms that had been regarded as types of fixity and perfection as originating and passing away, the 'Origin of Species' introduced a mode of thinking that in the end was bound to transform the logic of knowledge, and hence the treatment of morals, politics and religion."³⁷

Surely the same can be said of economics. The very concept of culture itself, which is at the root of the Veblenian dichotomy, is an exhibition and a rendition of the principle of continuity.³⁸ As Leslie White clearly states, "An infant of the human species is born into a cultural tradition. At birth, and for some time thereafter, the infant's potential ability to symbol does not reach the point of overt expression. The pre-symbol child is not a human being from the standpoint of kind of behavior. The infant becomes humanized as he is inducted into his culture through the process of symbolizing. In this way he acquires all his knowledge and beliefs, his customs and his codes, his attitudes and his values, his gods and his hells. A human being is a receptacle into which culture has been poured."³⁹ The implication is that an infant, with potential,

³⁷ John Dewey, "The Influence of Darwinism on Philosophy," *Great Essays in Science* (New York: Pocket Library, 1957), p. 1. Dewey spent most of his life "laying hands" on the sacred arks of dualistic positions as exemplified by his attacks on fact/value, knowing/caring, individual/social, etc., and all such non-processual positions.

³⁸ Leslie White, *The Science of Culture*, (New York: Farrar, Straus, & Company, 1949), p. XVIII.

³⁹ Leslie White, "Individuality and Individualism: A Culturological Interpretation," *The Texas Quarterly* (May, 1963), p. 115.

"becomes" human in something akin to the kind of process by which a resource "becomes" a resource. In both cases the becoming is a process and the thing that becomes cannot be really understood apart from the process by which it became what it is. As continuity is intrinsic to the achievement of humanness and resources, so too is it intrinsic to the technological process.

Veblen did not stand alone on this point, for later literature is replete with comments which support Veblen's thesis. As Sprague De Camp has recently put it, "Technology has progressed continuously from the time of the Agricultural Revolution 10,000 years ago, slowly and hesitantly at first, then with increasing sureness and speed."⁴⁰ Gerard Piel, publisher of the *Scientific American*, has noted this increasing rate of growth as clearly as any in a speech delivered in Chicago.⁴¹ "The pattern of events shows history on a course of accelerating acceleration. The major developments in man's accumulative experience have occurred within the most recent times and these developments occur at shorter time-intervals into the very present."⁴²

But technology is not only an accelerative process. It is also one of the most important aspects in the development of humanness itself. Rather I should say it is humanness in one of its phases. The anthropologist, S. L. Washburn, recently brought out this point when he wrote that "much of what we think of as human evolved long after the use of tools. It is probably more correct to think of much of our structure as the result of culture than it is to think of men anatomically like ourselves discovering culture."⁴³ This is what Gordon Childe means when he says "Man Makes Himself," and what Piel refers to when he writes, "In the old taxonomy of primates it was supposed that man had made the first tools; tool-making was the status symbol of membership in our species. Now, it would appear, tools made man. Certainly, tool-making conferred a competitive advantage on the maker of better tools. But the meaning of this phase of history goes deeper. The truth is: man made himself."⁴⁴

Some comments on the institutionalists' treatment of the technological aspect of culture imply that the institutionalists (Ayres especially) think that this insight is all there is. How anyone can read Veblen and Ayres

⁴⁰ L. Sprague De Camp, *The Ancient Engineers* (New York: Doubleday, 1963), p. 26.

⁴¹ Gerard Piel, "The Acceleration of History," *Current Issues in Higher Education*, 1964.

⁴² *Ibid.*, p. 25.

⁴³ S. L. Washburn, "Speculations on the Interrelations of the History of Tools and Biological Evolution," *The Evolution of Man's Capacity for Culture* (Detroit: Wayne State University Press, 1959), p. 21.

⁴⁴ Piel, *op. cit.*, p. 26.

and come to this conclusion is beyond me. Veblen wrote clearly and obviously on this point:

But the industrial side of life is not the whole of it, nor does the scheme of life in vogue in any community or at any cultural stage comprise industrial conduct alone. . . . The scheme of life has been a scheme of personal aggression and subservience, partly in the naïve form, partly conventionalized in a system of status.⁴⁵

He used a different vocabulary to describe and discuss the institutional aspect of culture. He refers to the world of "differential dignity" and "invidious discriminations," with its language of master-servant relationships, a world which functions in terms of the conditions of "ceremonial adequacy." An outline of Veblen's position will establish the theme, but the position is handled with broader insight by Clarence Ayres, partly because he has the world of later scholarship from which to draw.

To Veblen institutions were "settled habits of thought common to the generality of men."⁴⁶ But these settled habits of thought have certain characteristics which differentiate them from the matter-of-fact character of technological development and growth, and it is the characteristics that are exemplified by the vocabulary above. It is improper, in an analysis of Veblen's position, to see these words merely as interesting vocabulary. Taken together, they help form a system of explanation of a special kind of behavior. Veblen labeled this special *kind* of behavior institutional behavior. He centered his attention on change and the resistance to change and, since his orientation expressed itself in terms of process, he was convinced that institutional change and adjustment, its causes and consequences, should be the major legitimate concern of a scientific economics.

Thus Veblen tried to clarify the nature of the patterns of resistance to growth and change, and in so doing he had to get at the nature of institutions. He recognized them to be essentially constituted by habit, having a history, and therefore susceptible to inquiry, as are the values involved. Institutions are recognized to be systems of status characterized by hierarchical gradations of persons brought about by invidious distinctions as to worth and honor. They are seen to be power systems for the enforcement of the order of status, conceived of in superior-inferior terms.

In all his work Veblen contends that these aspects of institutions are inhibitory to change, obstructions to growth, and generally extremely con-

⁴⁵ Thorstein Veblen, *Place of Science*, *op. cit.*, pp. 105-6.

⁴⁶ *Ibid.*, p. 239. Other definitions of institution may be found as follows: *Absentee Ownership*, p. 101n, *The Nature of Peace*, p. 91, *Theory of the Leisure Class*, pp. 190 and 193.

servative factors in an ever-changing world. This outline of Veblen's position can be used as a backdrop for understanding Clarence Ayres' vital interpretation and reinterpretation of Veblen.

III

CLARENCE AYRES ACCEPTS the Veblenian distinction describing culture as constituted by the forces of workmanship and the forces of ceremonialism. But in presenting the subject of institutions he goes beyond Veblen on at least two counts: (1) By recognizing that the ceremonial (and therefore the exploitative) aspect is as old as man and has always been explicit in human behavior as far as we know. In contrast Veblen's description of savagery smacks of the "noble savage" in that he conceived of savage traits as combining "a certain amiable inefficiency when confronted with force and fraud together with truthfulness, peaceableness, good will, and non-emulative, non-invidious interest in men and things."⁴⁷ (2) By effecting a clear dissociation of the traditional concept of "instinct" from the analysis of institutions and technology and by stressing a clear-cut acceptance of the "concept of culture" and most of what it entails for social analysis.

Thus, in recent years, exemplified in his *Towards a Reasonable Society*, Ayres has been describing the institutional aspect of human behavior as having five distinct but interrelated features (functionally defined). (1) Commandments (sanctioned by supernatural agents), (2) Legends ("explaining" and confirming the commandments), (3) Emotional Conditioning to the commandments and legends induced by (4) Sacred Rites, an emotion-inducing re-enactment of the legends confirming (5) the Status System, which embodies and gives force to the commandments, legends, emotional conditioning, and sacred rites.

Implicit in the concept of status system is the concept of the "closed society," and how closed it is, effectively, is a function of a power system. Any process that can be described in this manner is static and past-binding. It is not transculturally valid but is limited to the belief patterns only of those who have internalized them. It is unfortunate that it is necessary to refer to examples in order to explain the process because the examples are often focused upon to the exclusion of the general principles that are being presented. Yet each example contains the grains by which the ceremonial functions may be understood.

Referring to Himmler's conviction that the "stars are made of ice,"

⁴⁷ Daniel Aaron, *Men of Good Hope*, paperbacks (New York, Oxford, 1961), p. 220.

Jacob Bronowski infers that the scientific yes-men in Himmler's proposed academy had little opportunity to deal with this belief scientifically. "This nonsense of course is like the nonsense that Germans were taught to credit about the human races. The state of mind, the state of society is of a piece. *When we discard the test of fact in what a star is, we discard it in what a man is.*"⁴⁸ This is the institutional-ceremonial aspect of all societies. In whatever society when the test of concepts against the behavior of the thing being tested is abandoned, then legends, myths, traditions, and habits fill the gap. If the pre-conditions for the functioning of science are tolerance, dissent, free inquiry, free speech, and open intellectual forum and debate, then the destruction of those values means that the opposite numbers take their place. It would be easy to turn the statement around and suggest that some in our own land have abandoned the test "of what a man is," and as a consequence have to defend those ideas by establishing the smaller equivalent of Hitler's police State. The cases of Himmler and Heisenberg and of our own racial bigotry exhibit the feature of Ayres' concept of institution as a functional type.⁴⁹

Perhaps these ideas put into different words and cursorily related to our examples above may help to clarify what is a difficult matter to express in a short paper. Robert Lowie's expression, "Omnis Cultura ex Cultura,"⁵⁰ meaning that all cultural facts are to be understood as growing out of previous cultural facts, makes it possible to focus on the fact that all *ideas* and *concepts* derive from the various facets of the culture or cultures in which nurturing takes place (white superiority, for example). The *legends* and *myths* presented in the process of supporting the ideas and concepts have been *internalized* and *sanctified* through the feedback mechanism and therefore are not subject to open and unfettered analysis by those who have done the internalizing. The position taken is one of a system of *false causality* (white supremacy)—which can be defended by a range of closed systems (White Citizens Councils, voting restrictions, restrictions on teaching scientific race analysis in the school, Klan terror, etc.)—exhibiting a *power system* based essentially on all the features presented above. This power system shows a status system (master-servant) and prescribes the roles of the masters and servants (now undergoing shifts). These features are past-oriented, conservative and culture limited, for only those who have internalized these beliefs give credence to them.

⁴⁸ Bronowski, *op. cit.*, p. 59.

⁴⁹ It is interesting to note here that James W. Silver's new book, *Mississippi: The Closed Society*, offers almost a duplicate of Ayres' concept of ceremonial behavior (see p. 7 especially) and in words only passingly similar to Ayres' words.

⁵⁰ Robert Lowie, *Culture and Ethnology* (New York, Peter Smith, 1929), p. 66.

Taken together, these characteristics form a culture of tyranny and they display clearly "what Veblen called 'ceremonial adequacy,' meaning the determination of competence not by (technological) demonstration but by ritual."⁵¹

As Ayres has demonstrated, all cultures are conglomerates of social structures which exhibit two major aspects, types, or forms of functionally identifiable behavior which he has chosen to call (a) technological-instrumental, and (b) institutional-ceremonial. These two functional patterns of behavior conflict with each other. If dissent, tolerance, and all the values of an open society are destroyed, then the result is a society in which the definition of what a man is or of what a star is is frozen and embalmed, rather than being derived from the stream of growing knowledge. That growing knowledge is not cornered by any individual, nor can it be.

It is difficult to take economists seriously when they say that the value of goods is simply a function of the person who assigns them value. In this scheme the last reference, the last resort, is the individual making the choice. The unit of analysis is individualist-oriented—it is one man.⁵² If the only criterion of truth or falsity, of usefulness or disutility, is one man, then we indeed are dictatorial if we would simply substitute our judgment for another's, and "Who is to say?" is a proper query. But it also means that scientific verification is impossible. "Valid" choices would simply mean that a large number of men made the *same* choice, even if that choice was that whites are naturally superior to blacks on all counts, or that stars are made of ice, or that acquired characteristics are transmitted by heredity.

But how do men verify anything? Certainly not by final reference to the choices of an individual as standard economic theorists seem to do. No one can test what is true or false unaided.⁵³

What we call science is a continuous series of experimentation, generalization, verification in which every exercise is a verification of some earlier generalization and an experiment by which the process is continued in the direction of some further generalization and verification.⁵⁴ The process is continuous and communal in character, and therefore so is

⁵¹ C. E. Ayres, *Theory of Economic Progress* (Chapel Hill, University of North Carolina Press, 1944), p. 160.

⁵² C. E. Ayres, *The Industrial Economy* (Boston: Houghton Mifflin, 1952), p. 38, and Marshall Sahlins, "Political Power and the Economy in Primitive Society," *Essays in the Science of Culture* (New York: Thomas Crowell Company), 1960, p. 391.

⁵³ Bronowski, *op. cit.*, p. 73.

⁵⁴ C. E. Ayres, "The Significance of Economic Planning," *The Development of Collective Enterprise*, Seba Eldridge, ed. (Lawrence, University of Kansas Press, 1943), p. 477.

the whole process of verification communal in character. Just as resource potential is realized technologically, it is also, at its highest level, a criterion for judging a better as opposed to a worse use of the materials. So, too, the growth in human knowledge is a criterion for judging what went before. The concept of man as atomistic is false. The criterion for judging its falsity is the view of man as a creature of culture. The culture concept and all that it stands for is not only the later but also the better knowledge precisely because it explains far more about the process by which human beings become human than any atomistic theory could or did. We conceive of the atomistic notion as a misconception on the basis of the idea of man as a creature of culture.

We are all creatures of culture. Culture and humanness are two sides of the same coin. We cannot call on transcendental powers, nor can we think of scientific advance in terms of fixed, final, and unchanging truths. So, we must search our own patterns of behavior for the rules and for the criteria of judgment by which we evaluate those rules. And not all of our behavior is equally valuable, not all of our ideas are equally true, and not all of our criteria are equally valid.

Contrary to Mr. Leavis, science and technology are not "externalities"⁵⁵ but are human activities, forms of behavior, ways of thinking that exhibit values by which they exist. All values are relational in a continuum of science and technology—while the "values" of what I have called "the culture of tyranny" are not continuous in the same sense. They are culture-limited values and receive their support only from those people in whose lives they have been internalized. But scientific values are subject to demonstration in a system of causality which has as its referent the question, "Did it work?" But the meaning of "works" cannot be ripped out of the continuum of experience, applied to a single event, and thereby judged. A knife can be used to kill and it can be said that it "works" to that effect. But the instrumentalists's meaning of "work" has always been tied to a theory of general welfare.

The essence of that principle is the universality and continuity of the instrumental-technological process. The truth of any proposition is established not by its immediate, and perhaps temporary, operational success but by its bearing on our continued—perhaps indefinitely continued—operation. . . . The general welfare is defined by the technological (scientific) life process.⁵⁶

⁵⁵ F. R. Leavis, *The Significance of C. P. Snow* (New York, Pantheon Books, 1963), p. 45.

⁵⁶ Ayres, *The Industrial Economy*, *op. cit.*, p. 310.

If the community were torn by internal strife in which its members regularly used knives on each other, it would work a good deal less efficiently than if it were peaceful. The continuity of the scientific-technological process would be disrupted in a community of killers. On such a basis the judgment of the term "works" in the short-run sense is faulty and incomplete and a total misconception of what the pragmatist and instrumentalist have meant in their exposition. The meaning of "works" *becomes* no less than resources become. We eat to live to work to eat better to live better to work better ad infinitum. Anything that in the long run disrupts this process does not "work" in the instrumental sense of the word. Moreover, anything that *hinders* that process from operating more effectively also does not work even though the identification may be more difficult.

IV

BOTH VEBLEN AND AYRES have applied themselves to demonstrating that the technological-scientific process broadly conceived is the "life process" of mankind. Their conceptual framework has been resourcefully applied to many and widely diverse fields of investigation which it seems unnecessary to list at this point.⁵⁷ However, there are other applications and extensions of the theory that await a fuller development, though they are more suggestive than conclusive. For example, the distinction between *permissive* and *dynamic* cause, implicit in the technological-institutional dichotomy, offers us some new ground for analysis of the problems of capital formation, which has not as yet been fully exploited.⁵⁸ This analysis offers us a more effective way of analyzing the issue of power in economic affairs and of bringing that analysis into some centralized focus. It is sharply critical of the notion that wants are to be taken as given data whatever their derivation and, instead, places them in a cultural matrix and analyzes them in terms of their instrumental and institutional aspects. This further indicates, for example, that prices are a function of those "forces in the background," of technology and institutional behavior, of status as well as of information, and they operate as *general* allocative

⁵⁷ A small listing can be found in L. J. Junker, "The Social and Economic Thought of C. E. Ayres," an unpublished Ph.D. dissertation, University of Wisconsin, 1962, p. 223. One notable addition to that list is Joan Robinson, *Economic Philosophy* (Chicago: Aldine, 1963).

⁵⁸ C. E. Ayres, *Theory of Economic Progress*, *op. cit.*, Chap. III, and Thorstein Veblen, "On the Nature of Capital," *The Place of Science in Modern Civilization* (New York: B. W. Huebsch, 1919), pp. 324-86. Also, L. J. Junker, "Capital Accumulation, Savings-Centered Theory and Economic Development," *Journal of Economic Issues*, Vol. 1, Nos. 1 and 2 (June, 1967).

devices denoting *any* pattern of behavior. It is knowledge which makes the difference between genuine and spurious choices, the prices which denote them, and the consequences of acting upon them. If the allocation problem is simple distribution, with little concern for what it is that is being distributed, then there seems to be no way to tell what is optimal. But if optimal means knowledge-oriented distribution, then Veblen and Ayres have helped us along the right path. Last, but not least, the simplistic notion of freedom as polaristically opposite to planning—from this point of view—becomes conceptually irresponsible.

Economic theory has not yet freed itself from the metaphysics of individualism. However, if we trade in our concepts of atomistic individualism for the conception of individuals as social selves, freedom then is not intrinsic to the being but is a function of the culturally determined restraints and opportunities that exist at any time. Those opportunities are dynamically a function of the technological-scientific process (and institutional restraints), and planning refers to those organizational skills by which human intelligence is used to extend those opportunities to their technologically determined limits.

The technological-scientific process has been recognized as the "life process" by many scholars because it is growth-oriented; it is life-oriented. The institutional-ceremonial aspect of culture is past-oriented. In one way or another the social sciences are being forced into dealing with these two diverse ways of facing and altering the world of human events.

If institutional economists want to correct what has often been recognized as Veblen's major failure—his relative incapacity to move from analysis to policy⁵⁹—they must apply these ideas to the problems of our time. If they deny this way of dealing with economic affairs, they do not simply deny those scholars who have expounded these ideas, which would in itself be incidental. What is more to the point is that they would, to my mind, be denying the main tendency in the social sciences which is not incidental but central to our mutual concern. Perhaps the next order of business is to fruitfully combine this more general theory with some of the major insights of the Keynesian revolution, modified if necessary, to form a more general theory of the economy and of economic and social change.

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⁵⁹ C. I. Ayres, *Theory of Economic Progress*, *op. cit.*, p. 278.

COMMENT

On "Ideology and Indian Planning"

By A. VASUDEVAN

I

THE ATTEMPT on the part of Professor Ralph B. Price to bring out the ideology in (rather than *and*) Indian planning (*American Journal of Economics and Sociology*, Vol. 26, No. 1, January, 1967) could be regarded as remarkable but for some blemishes and misreading of the Indian situation. The following remarks are intended to promote a better understanding of the subject in question.

Professor Price's opening sentence, "The Congress Party of India is noted for the strong ideological position of its pre- and post-independence leadership and for its "adoption of the goal of building a 'socialist pattern of society,' " tempts one to ask two important questions, *viz.*, what is the *period* of pre-independence leadership, and how strong is the ideological position of this leadership. From the article one guesses that Professor Price has probably in his mind the period between the early 30's and 1947 as the one constituting pre-independence leadership. But one is not certain about the *strength* of the ideology of leadership during this period, even if it is granted that there *was an* ideology.

A study of national leaders in the struggle for independence would show that there were liberals, extremists, middle-of-the-roaders, and any number of men with different textures of ideas. It may, however, be said, in fairness to Professor Price, that the word "socialism," whatever be its meaning or content, was often found in the speeches and writings of different leaders since the beginning of the 30's. It was M. N. Roy who, though not a Congressman, seemed to have first introduced, as he himself claimed once, the Marxian language and (probably) thought (too) in the independence movement, while revolutionaries like Jayaprakash Narayan, Rammanohar Lohia, and Asoka Mehta belonged to the Congress Socialist group (set up in 1934) within the Congress Party itself.

Jawaharlal Nehru did not belong to this group; nor was he an ardent Gandhian or even a Royist. He seemed to be an amalgam of all thought processes but was still regarded as a "socialist" who rejected proletarian revolution and believed in democratic ideals, mixed economy, cooperatives, and a gradual extension of the public sector. On these points there were few differences, except of degree, between him and other "socialists." The Industrial Policy Resolution of 1948 does not, therefore, seem to be any

other than a natural consequence, rather than something "devised," as Professor Price would have us believe, by the Congress Party, then facing "the reality of power." After all, with whom should the party devise such a "compromise" in terms of a resolution? Surely not with the Socialist Party, which did not agree with the Congress on vital policy matters, but which was politically not powerful! Even the Industrial Policy Resolution of 1956 does not appear to be a compromise: it was at best a concretization of one aspect of the Avadi Resolution (1954) of the "Socialist pattern of society" that threatened the very existence of the Praja Socialist Party and the Communist Party of India.

II

PROFESSOR PRICE MAY BE FORGIVEN for not giving these details, but one is somewhat puzzled to know that the Indian elite and intellectuals believed in a concrete realization of socialism only *via* an ideology. One is not inclined to believe that there was, or even is, only *one* ideology in Indian planning, unless one defines clearly what "ideology" and "planning" mean. The fact that many controversies exist on different aspects of Indian plans or planning policies goes to prove that different ideas held by different men, agencies, and government organs cannot be easily brought together under a convenient label of ideology. Also there is the undeniable fact that in the planning process, representatives of the business community are consulted before fixing up the physical and financial targets in the private sector. There are also reports of working groups on private enterprise before the Planning Commission for final determination of plan targets. It is unfortunate that Professor Price was unaware of this part of the Planning Commission's activity, as his footnote 50 of the article tends to show.¹ Moreover, it is difficult to prove that the government bureaucracy views the private sector "with suspicion and hostility," especially owing to the fact that most of the bureaucrats tend to work for private enterprises after their retirement from government service.

Professor Price views the Mahalanobis model as ideological, partly because the proportion of investment in capital goods, λ_K , is fixed arbitrarily as a causatory factor of growth, and also because of the socialistic aim of economic independence from foreign imports of capital goods. He shows the technical flaws of the model by referring to Komiya's article. Perhaps one could also add the comments on the model by A. K. Sen, S. Chakravartty, S. Tsuru, and a host of others. But none of the critics con-

¹ It may be useful to note that Mr. G. L. Mehta, who was a member of the Planning Commission in the early fifties, is a prominent businessman-industrialist.

cern themselves about the relative size of the public *vis-à-vis* private sectors. It is no use saying simply that the model is inspired by Soviet planning without showing clearly the points of similarity.

In this context one wishes that Professor Price had examined the logical premises of the fundamental assumptions of the Mahalanobis model and had inquired into such important facts as the marketable surpluses, the stock of capital, the levels of *per capita* consumption, the foreign exchange reserves, and the marginal propensities to consume, as they existed at the beginning of the Second Five Year Plan. Such an effort would have pointed out the extent of realism in the model, and probably also the ideological moorings, if any. To cite the achievements of the decade 1956-66 to prove the ideological basis of the plans is to take shelter under the "hindsight" of history, which indeed is not a convincing thing to do. Also, it is difficult to prove the ideological basis merely by saying that the extension of the public sector would mean slow growth rates, stifling of private enterprise, and curbing innovation, experimentation, and imagination. The need of the hour does not seem to lie in experimentation which would often prove to be costly, as the Indian import substitution schemes show. It is also unlikely that, at the present levels of Indian investment and capital stock, the private sector would be able to experiment and innovate, so as to bring about Wallichian "derived" development.

III

IT WOULD BE USEFUL to ask at this juncture whether there should not be any ideology in development planning. Professor Price seems to say that it should be weeded out, surely in the case of India. But he does not stop here; he would go further to suggest encouragement to private enterprise as the only way to raise the Indian growth rates. One wonders whether this solution will not be a part of *an* ideology.

Professor Price's treatment of the Hindu character and values, based largely on the pessimistic accounts of N. V. Sovani and D. Narain, does not appear to be relevant to the subject in question. One does not find it happy to mix up "ideology," Hindu values and character, in an analysis of the developmental design of Indian plans, particularly the Second and the Third Plans, although Professor Price believed that according to the Congress leadership, a meaningful relationship exists between a "socialist pattern of society" and Hindu philosophy. It is doubtful if any attempt has been made in this direction in a concrete manner by any of the Congress leaders, either of the past or of the present.

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Reply: "On 'Ideology and Indian Planning' "

By RALPH B. PRICE

I WISH TO THANK Dr. A. Vasudevan for his knowledgeable comments on my brief discussion of the development of Indian socialist thought.¹ I was not attempting to trace the history of doctrinaire thought in the Congress Party or in other political parties in India. He has added some important facts. I was trying to show that an admittedly amorphous intellectual approach to public economic policy has been pervasive in the political leadership for over thirty years, and that it was endemic in the Planning Commission. I agree with Dr. Vasudevan that the Industrial Policy Resolutions of 1948 and 1956 were, for the political leadership, quite a natural consequence of the pre-independence period. The "compromise" I spoke of was obviously with themselves. They believed in some undefined form of "socialism," yet they had neither the power of political consensus for concrete definition nor the technical and administrative know-how in sufficient quantity to implement it if they had. The Avadi Resolution of 1954—to create a "socialist pattern of society"—appears to be a manifestation of this dilemma.

As for the participation of the business community in the planning process, it was my conviction, after talking with many leading business and professional men and in observing the planning process, that private business men are "consulted" after the fact rather than before. I grant that I overlooked Mr. G. L. Mehta's participation on the Commission some fifteen years ago in the First Plan period. But one swallow does not make a summer.

Dr. Vasudevan's comments about my remarks on the Mahalanobis model are interesting, but I thought that I had said sufficient about the "logical premises" to show that the model was highly unrealistic for India from its inception. Its neglect of some of the vital parameters of a market economy, including the agricultural "surplus," was classic in this type of planning. India will be paying the price for the neglect of agriculture, the one great potential source of saving, for a generation. Dr. Vasudevan appears to share with the intellectuals of whom I spoke a lack of understanding of the role of the entrepreneur. Experimentation, innovation, adaptation—these are the *sine qua non* of development and growth. Indian economic thought seems generally to have neglected the qualitative aspect of development in its concern for quantitative

¹ "On 'Ideology and Indian Planning,' " *American Journal of Economics and Sociology*, April, 1968.

planning. The general proclivity to try to solve all problems by "nationalization," to think in static rather than dynamic terms, reminds one of the prewar British Labour Party platforms—which indeed are the root of much of Indian "socialism." Vasudevan's reference to "Wallichian 'derived' development" indicates the depth of his misunderstanding. Wallich holds that the cause of low growth rates and inflation in developing countries lies in a consumption-oriented rather than a production-oriented society. Rewards do not go to the innovative and the inventive but to the political pressure groups. Such an economy tends to stagnation. India, unfortunately, appears to fit this kind of a model.

My plea was for pragmatism, which Dr. Vasudevan appears not to have understood. I asked for the recognition of the need to plan in such a way that the power of the individual would be released. As M. G. Ranade, India's first great economic commentator and the acknowledged father of Indian economics, said of economic, social, and political development over sixty years ago, "The whole man has to be developed and perfected for his own advantage . . . it is only . . . this which can strengthen our efforts and crown them with real success."²

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² M. G. Ranade, *Miscellaneous Writings* (Bombay: The Manoranjan Press, 1915), p. 231. Quoted in R. B. Price, "M. G. Ranade's Theory of Development and Growth," *Explorations in Entrepreneurial History*, 2nd series, Fall, 1966.

The Population Problem in the Americas

IF THE PRESENT 2.9 per cent growth rate continues, the population of the Alliance for Progress countries will double in 25 years and will reach 625 million by the year 2000. More than 40 per cent of the present population of 237 million is under age 15, foreshadowing such demands on the economy as: a six per cent annual increase in farm production (double the present rate); more than 140 million jobs by 2000 A.D.; about 1 million new dwelling units each year; thousands of schools and classrooms.

To tackle these and related problems, the Agency for International Development (AID) created the Office of the War on Hunger to co-ordinate preexisting programs into a massive continental effort. Alliance countries in Latin America received some \$523 million in food donations under Food for Freedom between 1962-67. AID's Population Service has, on request, supplied the Alliance partners with \$4.6 million in family planning programs during the last 3 fiscal years. [From the U.S. Department of State.]

REVIEWS

Political Factors in Brazil's Development

By ROBERT J. ALEXANDER

EVENTS IN BRAZIL in recent decades are a good example of the fact that political factors can be of key importance in influencing a country's economic development. The present volume¹ goes into considerable detail in describing this interrelationship between political and economic development.

Professor Skidmore began his researches, as he tells us, with a view to investigating the circumstances of the overthrow of President Joao Goulart early in 1964. However, he soon became aware of the fact that the roots of this event went back at least to the Revolution of 1930, which put President Getulio Vargas in power, and that many of these roots were economic. He therefore traces both the economic development of the country and the political event of the three and a half decades after that Revolution.

The author probes in some detail the circumstances leading up to the establishment—during President Getulio Vargas's fifteen-year first period in office—of a framework of political and social institutions, within which the country's increasingly rapid economic development took place. He then reviews what happened to those institutions in the twenty years following the first overthrow of President Vargas in October, 1945, during which time the country experimented with a system of limited political democracy. And he sketches in detail why this experiment finally broke down in 1964.

With the Revolution of 1930 Brazil abandoned once and for all the theories of economic liberalism which had predominated before that date. In its place the country opted for a policy of strong government intervention in the economic process. Throughout the next three and a half decades each succeeding regime used tariff protection, exchange controls, credit of government-run banks, as well as direct government investment in various sectors of the economy, as instruments to spur forward the development and diversification of the national economy. In the late 1930's this intervention took on certain aspects of fascist totalitarianism during the so-called *Estado Novo* period, which lasted until Vargas' overthrow in 1945.

¹ *Politics in Brazil 1930-1964: An Experiment in Democracy*, by Thomas E. Skidmore (New York: Oxford University Press, 1967), 446 pp., \$8.75.

Professor Skidmore traces the failure of the democratic regime that succeeded the *Estado Novo* to provide the changes in the country's social and economic institutions which were necessary for the undisturbed continuation of economic development. He also discusses the hesitancy of each successive administration to come to grips with the inflation which became an increasingly grave problem, particularly after 1961.

Although the most detailed part of Professor Skidmore's book deals with the country's political developments during the period in which he is interested, he also lays considerable stress on successive governments' economic policies. He makes amply clear how government policy for many years stimulated and encouraged rapid economic development and how the failure of political and social institutions to adapt to economic change finally resulted in bringing further economic development virtually to a halt, at least temporarily. This coordinated discussion gives the clearest picture presently available in English of the circumstances surrounding the transformation of Brazil from a predominantly rural economy into the principal industrial country of Latin America.

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Soviet Lag in Technical Training

THIS REPORT PRESENTS estimates and projections of educational attainment in the U.S.S.R. for the period 1950-85, for two population groups, those ten years old and over and those sixteen and over.¹ The Soviet Government inherited from Tsarism a backward educational system reflecting the corruption and superstitions of the Russian Orthodox Church. It made valiant efforts to overcome Russia's lag behind most of the countries of the west. But it was handicapped on its part by the superstitions and dogmatism of the Marxist and Leninist ideologies.

The size of the Soviet effort can be seen by the estimates of the demographers that 6.4 million persons had completed higher education in 1967 and that these numbers will be increased to more than 15 million by 1985, an increase of two and a third times the current completion rate. This will be 6.5 per cent of the population ten years old and over.

By 1985 nearly 11 per cent of the population ten years old and over, 25.4 million persons, are expected to have completed specialized secondary education. This would be a notable increase over the 4.8 per cent who achieved such education in 1959 and the 3.4 per cent of 1950.

¹ *Estimates and Projections of Educational Attainment in the U.S.S.R.: 1950-1985*, by Ann S. Goodman and Murray Feshback, U.S. Bureau of the Census, International Population Reports, Series P-91 (Washington, D.C.: U.S. Govt. Printing Office, 1967), 25 cents.

The demographers report that "if these growth rates are realized, Soviet planners will fall short of their goal for 1970, of a ratio of one specialist with higher education to three to four specialists with specialized secondary education in the industrial, construction, transport, communications and agricultural sectors of the economy."

Since the Soviet Union is automating its economy—not so fast as the United States and some other Western countries, but quite rapidly nonetheless—the data indicate that its results will be handicapped by a serious shortage of technicians. Also, and more seriously, the Soviet economy is likely to be afflicted even more than most Western economies with the problem of how to maintain employment for poorly educated personnel made redundant by automation.

This study, which seeks to overcome the lack of Soviet statistics as well as the continuing inadequacy of such data as there are, in spite of the efforts of Soviet statisticians to improve them, is a valuable contribution to an understanding of the Soviet economy and of Soviet society.

WILL LISSNER

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Progressivism in Ohio, 1897–1917. By Hoyt Landon Warner. Columbus, O.: Ohio State University Press, 1964. 570 pp., index, biblio., \$10.

The progressive era was one of the great periods in the history of liberal reform in the United States. In Ohio, it originated in Toledo, Columbus and Cleveland under leaders like Samuel Milton Jones, Washington Gladden and Tom L. Johnson, who were national figures like Gifford and Amos Pinchot. The work of Jones, Gladden and Johnson was carried forward by Newton D. Baker, Brand Whitlock, Herbert Bigelow, James M. Cox and many others; it eventually made an indelible impress on the course of the nation. Mr. Warner, professor and chairman of the department of history at Kenyon College, has delved deeply into the records to produce this exciting account. It is an example of this historical method at its best.

W.L.

Disabled Workers in the Labor Market. By A. J. Jaffe, Lincoln Day and Walter Adams. Totowa, N.J.: The Bedminster Press, 1964, 191 pp., \$5.

The major purpose of this study was to learn the position in the labor market, following their injury, of seriously and permanently disabled

men. Of the sample, 14 per cent were not employed at the time of interview. The greater incidence of non-employment was particularly pronounced among men 45 and over. The younger, better educated, skilled or white collar workers tended to be successful in re-employment. About 1 man in 20 never returned to work because of the severity of his injury. For those who did return to work, the disability seems to have compounded their job-seeking problems. If the injured worker returned to work for the same firm and at the same occupation, he was most likely to have a good job five years later. If he changed employers or occupations he was most likely to have a poorer job—or no job—five years later. Facts like these, and their implications, make this statistical study a valuable contribution to social policy-making and a prime example of how statistical analysis, combined with a sure grasp of subject matter area, can be used to bring about planned social change.

W.L.

The Berkeley-Hong Kong Data Archive

THIS NOTE is an attempt to describe one example of a new and growing movement in the social sciences: the data archive.¹ It has long been recognized that while many sociological studies are not initially planned to validate the hypotheses of later investigators, they may nevertheless serve such a purpose. In addition, they provide information useful in the design and interpretation of other studies. Therefore, in 1958, the Institute for International Studies at the University of California (Berkeley) and the Survey Research Center of the University began to collaborate in the development of a campus facility to serve the needs of local scholars in this regard. Sample survey data conducted by scholars and, in some cases, commercial polling organizations were sought for the archive. The data came at the specific request of individual users—in the form of punched cards and the various documents associated with the conduct of the original studies. Proceeding through informal channels, the Survey Research Center began to acquire the basic, raw data collected by various scholars in their own work. It then made their data available to other scholars in order that it might be analyzed further and in combination with other studies.

As the amount and diversity of the information stored at the Survey

¹ For additional descriptions of archives, see Ralph L. Bisco, "Social Science Data Archives: A Review of Developments," in *American Political Science Review*, Vol. LX, No. 1, March 1966, pp. 93-109, and *Information sur les Sciences Sociales*, Vol. V, Mars. 1966, pp. 110-125.

Research Center increased, so did the number and variety of users of the facility. Graduate students utilized the data archive for writing dissertations; local and foreign scholars began to use it for supplementing their own work.² In 1961, a social science data archive was formally established as part of the Survey Research Center including in its holdings the many studies executed by the Center itself, other organizations on the Berkeley campus, and materials from individual scholars.

The Archive continued to solicit contributions of data from various scholars without developing a specific substantive focus until 1963. During that year, Professor S. M. Lipset (then the Director of the Institute for International Studies) and Professor C. Y. Glock (Director of the Survey Research Center) agreed to sponsor a joint program of data acquisition emphasizing comparative studies with special emphasis upon the developing nations, and formally announced the establishment of the International Data Library and Reference Service (IDL & RS).

Since there were, at that time, well over one hundred different studies from countries in Africa, Latin America and Asia (each study carried out independently and according to different customs and procedures), the problems of making them useful for secondary analysis were considerable. Funds to aid in this endeavor were therefore sought, and obtained, from the National Science Foundation.

The holdings of the Library have grown since that time, and the problems of organizing and maintaining the Archive have grown with them. In order to keep up with the increasingly complex demands of the users, therefore, the Archive has shifted, more and more, toward a reliance upon electronic computers for certain kinds of basic operations. The inventory of holdings, for example, is maintained by computer.³ Similarly, in reproducing specific studies (or parts of studies) for users, or in carrying out statistical computations that they have requested, the computer is utilized extensively. Funds have recently been obtained to foster this activity and to develop, if possible, a direct connection of the Berkeley Archive with other archives in order to enable users of the IDL & RS to gain rapid access to data from those archives which may be either more general or more specialized in their holdings.

² Students and scholars from such diverse countries as Argentina, Brazil, Chile, Colombia, France, Germany, India, Italy, Japan, Korea, Mexico, Taiwan and Venezuela have used the archive in their own research and as an aid in teaching the techniques of survey analysis to students.

³ See "List of Studies: Africa, Asia, and Latin America" (processed), Berkeley, Calif.: International Data Library and Reference Service, Survey Research Center, University of California (Berkeley), Oct. 17, 1966, 24 pp.

The costs of utilizing the IDL & RS are kept at a minimum through the indirect support provided by the University of California and the National Science Foundation funds used for program development. Thus, only the direct costs of reproducing and shipping the desired data or documents are charged to the users. While these costs may change, they are, at the present, approximately \$6.00 per thousand IBM cards and \$.05 per page for the reproduction of codebooks and other documents. The costs of making statistical calculations vary, of course, with the complexity of the calculations desired and the number of respondents and variables involved. Estimates of the costs for any specific computation may be obtained through correspondence. When the number of respondents and the number of variables in an analysis are large, it is frequently most economical to utilize the computer for making such computations (even though the computations themselves may be relatively simple) because of its great speed.

More detailed information including a schedule of fees and a list of studies currently held in the Archive can be obtained by requesting them from:

Data Librarian
International Data Library and Reference Service
Survey Research Center
University of California
2220 Piedmont Avenue
Berkeley, California 94720

[An announcement from the IDL & RS.]

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The Relationship Between Economic Activity and Critical Community Dimensions

BY BYRON E. MUNSON

THE PURPOSE OF THIS PAPER is to examine the relation between the economic and the social dimensions of the community. Most of the data were derived from an earlier study to determine the critical dimensions of the community and its underlying structure.

The county is the unit of observation employed because of the absence of data for the sociological community. This poses a problem, however, since of course counties often include more than one community. Nevertheless, the ever-changing boundaries of the sociological community render longitudinal studies almost impossible. Moreover, consensus is lacking among social scientists concerning the meaning of the concept community. The lack of agreement is well demonstrated by Hillery's survey of the literature which, although not extensive, revealed 94 definitions.¹ Nevertheless, Jonassen concludes that theoretical formulations of social scientists indicate that they would agree that some or all of the following should be included in their conceptions of community: (1) people, (2) a territorial base, (3) functional interdependency of specialized parts, (4) a common culture and social system which integrate activity, (5) a consciousness of unity or belonging, and (6) an ability to act in a corporate fashion.² We will use the concept *community* to refer to a *relatively*

¹ G. A. Hillery, Jr., "Definitions of Community: Areas of Agreement," *Rural Sociology*, Vol. 20 (1955), pp. 113-23.

² Christen T. Jonassen, *The Measurement of Community Dimensions and Elements* (Columbus, Ohio: Center for Educational Administration, The Ohio State University, 1959), p. 2.

self-sufficient population, residing in a limited geographic area, and bound together by feelings of unity and interdependence in meeting man's basic social and biological needs.

Several other rather compelling facts make the county a valuable unit for study. There is a plethora of census data pertaining to the county, as well as significant data from other national, state, and municipal sources. Moreover, use of the county by agricultural extension workers, city and regional planners, census takers, and a large number of other federal and state workers, testifies to its acceptance and value as a unit of observation. Such widespread use of the county makes it worth examining, in and of itself. Perhaps the most cogent argument favoring use of the county is its permanency as a governmental unit. Thus a high degree of comparability of data is available from one period to another. Moreover, it is suggested that analysis of county dimensions provides valuable insights pertaining to the community.

Use of the county presents a serious limitation, however, in that one is unable to deal with intracounty variations in the level of economic activity, despite the fact that we are aware that typically substantial variations exist from community to community.

I

Method of Study.

ONE HUNDRED AND THIRTEEN variables were included in the original study. The data were analyzed in a variety of ways. However, this analysis will focus on only those data which pertain to the relationships between economic activity and other critical community dimensions. Nine economic variables from the original study were used and an additional one, Industrial and Commercial Capital Investment, was added since it is a crucial measure of economic activity. The following variables served as indicators of the magnitude of economic activity:

1. *Economic Complexity*: This measure is derived by counting the number of industry groups having 300 or more employees (either male or female).
2. *White-collar Workers*: The percentage of the employed labor force included in the following Census categories: "Professional, Technical, and Kindred Workers"; "Managers, Officials, and Proprietors, except farm"; "Clerical and Kindred Workers"; and "Sales Workers," 1960.
3. *Manufacturing, 1958*: The per capita value added by manufacturing, 1958.

4. *Wholesale Trade, 1958*: The per capita dollar sales in wholesale trade, 1958.
5. *Retail Trade, 1958*: The per capita dollar retail sales, 1958.
6. *Services, 1958*: The per capita dollar receipts for "Selected Services," 1958.
7. *Commercial Activity*: The per capita commercial activity is obtained by adding "Per Capita Wholesale Sales, 1958," No. 20; "Per Capita Retail Sales, 1958," No. 21; and "Per Capita Receipts from Selected Services, 1958," No. 23.
8. *Economic Base*: This is a combined index calculated from the "Industrialization" index, No. 25, and the "Agriculture" index, No. 26, by the following formula:

$$E. B. = \frac{\text{"Industrialization"}}{\text{"Agriculture, 1959"}}$$

9. *Value Added per Worker*: The value added by manufacture per industry employee, 1958. Statistics were compiled for industries listed in the 1958 Census of Manufacturers as defined in the revised Standard Industrial Classification Manual, issued in 1957 by the Bureau of the Budget.
10. *Industrial and Commercial Capital Investment*: Estimated investment in machinery and equipment used for tax assessments.

The ecological or geographic aspects of economic activity in Ohio were determined by ranking counties from the first to the 88th position on each of the above variables and summing each county's variable ranks. Then the counties were reranked. Ranks were converted to scores in such a manner that rank order and scores are inversely related.

Variables included in the initial study were intercorrelated and factors were analyzed to discover interrelationships. Seven factors or clusters of highly interrelated variables were revealed: Urbanism, Level of Living, Population Growth, Agricultural Productivity, Social Control, Taxable Wealth, and Insured Labor Force.³ Only factor loadings on relevant variables will be included in this analysis.

II

Findings

AN ATTEMPT WAS MADE to establish the relationship between the level of economic activity and four critical dimensions of the community: (1) degree of urbanization, (2) social disorganization, (3) level of living, and (4) educational need.

³ Details of the methodology, findings, etc., may be found in *Changing Community Dimensions*, by Byron E. Munson (Columbus, Ohio: Center for Community and Regional Analysis, The Ohio State University, 1967).

1. *Urbanization and Economic Activity.* Cuyahoga, Hamilton, Franklin, Lucas, and Montgomery counties—in which Ohio's largest cities, Cleveland, Cincinnati, Columbus, and Toledo are located—exhibit the highest degree of economic activity (Figure 1). The lowest degree of economic



Figure 1. Economic Activity Scores, Ohio Counties, 1960. Scores are inversely related to economic activity, e.g., 1 = highest economic activity and 11 = lowest economic activity.

activity is found in the extremely rural areas of Ohio, especially in the marginal farming areas of southern and southeastern Ohio. As previously indicated, differences from community to community within each county are obscured by the grossness of our unit of observation, the county.

Certain counties exhibit a high level of economic activity, despite the fact that they are not highly urbanized. To illustrate, Hancock County exhibits a score of 3 on economic activity, but it earned a score of 6 on population density, which is the best single indicator of degree of urbanization. Washington County's respective scores were 2 and 7; Henry County, 4 and 9; Paulding County, 8 and 11; Clermont County, 10 and 3; Warren County, 10 and 3; Geauga County, 8 and 5; Medina County, 8 and 4; Portage County, 7 and 3.

The low economic activity scores in Geauga, Medina, and Portage counties are best explained in terms of their close proximity to Cleveland in Cuyahoga County. Similarly the low level of economic activity in Clermont and Warren counties reflects the influence of their close proximity to Cincinnati in Hamilton County. Thus, the typical pattern of economic activity in the large metropolitan areas includes a high level of activity in the central urban county and a relatively low degree of activity in the suburban counties. It seems probable that economic activity is low in the suburban counties, despite relatively high population density, because of the close proximity to the central urban county. Undoubtedly the picture is considerably different today because of the substantial centrifugal movement of both business and industry into the suburban counties since the 1960 census. The rapid development of shopping centers alone in the peripheral areas has no doubt significantly increased the level of economic activity in the suburban counties. The disparity between high economic activity and low degree of urbanization in Washington County probably reflects the influence of two subregional trade centers. Washington County is influenced by its county seat, Marietta, with a population of 16,847, on the Ohio side of the Ohio River, and by Parkersburg, West Virginia, a city of 44,797 on the opposite or West Virginia side of the river.

Nevertheless, calculation of Spearman rank order coefficients to establish the relationship between economic activity and the highest loaded variables in the urbanism factor, Population Density and Population Size, revealed a substantial relationship—Population Density, .79 and Population Size .80 (Table 1). Additional evidence of the relationship between economic activity and urbanization is provided by the loadings on the following key indicators of economic activity in the urbanism factor: Economic Complexity, .57; White-collar Workers, .58; Manufacturing, .47, Wholesale Trade, .82; Retail Trade, .50; Services, .80; Commercial Activity, .81; and Economic Base, .93 (Table 2).

Still further evidence of the association between economic activity and

urbanism is found in an intercorrelation matrix.⁴ Typically the correlations between both Population Density and Population Size and the key economic activity variables (5 to 27) are high to extremely high.

2. *Social Disorganization and Economic Activity.* In view of the close association between economic activity and urbanization, it is not sur-

Table 1. Relationship between Economic Activity and Selected Variables

Variables	Spearman Rank Order Correlation*
Urbanization	
Population Size	.80
Population Density	.79
Social Disorganization	
Alcoholics	.73
Venereal Disease	.50
Persons Divorced or Separated	.39
Juvenile Delinquency	.35
Suicides	-.32
Illegitimacy	.27
Crime	.21
Morbidity	-.06
Mental Illness	.03
Level of Living	
Per Capita Income	.83
Poverty	-.69
Unemployment Index	-.45
Unskilled Workers	-.38
Persons per Car Registration	-.28
High School Education	.27
Overcrowding	-.26
Child Aid	-.23
High School Enrollment	.22
Household Modernity	.22
Relief Expenditure	.12
Educational Need**	-.56

* For $r_s = .28$, $z = 261$ which is significant at the .01 level for a two-tail interpretation (H. M. Blalock, *Social Statistics*, New York: McGraw-Hill, 1960, p. 319).

** Represents an index of educational need calculated from seven education variables.

prising to find significant relationships between economic activity and social problems: Alcoholism (.73), Venereal Disease (.50), Divorce and Separation (.39), and Juvenile Delinquency (.35) (Table 1). Suicide, however, is an exception, being negatively associated with economic ac-

⁴ For a copy of the intercorrelation matrix, which is too extensive to reproduce here, write the author.

Table 2. Factor Loadings of Selected Variables

Variable	Urbanism	Level of Living	Population Growth	Agricultural Productivity	Social Control	Taxable Wealth	Insured Labor Force	h^2
1 Population Size	(.96)	-.02	.15	-.01	-.09	.02	.01	.96
2 Population Density	(.97)	-.01	.14	-.08	-.02	.04	-.09	.98
5 Economic Complexity	(.57)	.29	(.45)	-.24	-.27	-.01	.22	.79
18 White-collar Workers	(.58)	(.32)	(.44)	-.07	(-.45)	.06	.10	.85
19 Manufacturing, 1958	(.47)	(.31)	.11	.01	-.16	.15	(.49)	.62
20 Wholesale Trade, 1958	(.82)	.15	-.05	.28	.11	.05	.10	.80
21 Retail Trade, 1958	(.50)	(.38)	-.06	(.38)	-.17	.01	(.42)	.75
23 Services, 1958	(.80)	.06	.18	.19	-.17	.14	.12	.78
24 Commercial Activity	(.81)	.21	-.04	.31	.03	.05	.19	.84
27 Economic Base	(.93)	-.09	.02	-.07	.02	.01	-.06	.88
30 High School Enrollment II	.09	(.82)	-.07	-.10	-.02	.04	-.12	.71
32 Technical Illiteracy	.10	(-.69)	-.09	-.17	.27	.08	-.08	.61
33 Elementary School Education (Only)	(-.41)	(-.39)	(-.55)	.08	(.43)	.00	-.05	.82
34 High School Education I	-.12	(.87)	.17	.17	.05	.04	.04	.83
35 College Education	(.46)	.24	(.60)	.07	(-.34)	-.01	-.12	.76
38 Local Educational Expenditure, 1962-63	(.44)	(.38)	.20	.09	-.05	(.43)	.16	.60
41 Educational Self-sufficiency	(.41)	(.41)	.14	.21	-.06	(.44)	.18	.63
42 Per Capita Local Expenditure for Education	.21	(.43)	.22	.15	.00	(.38)	.09	.45
54 Morbidity	-.04	-.20	(-.49)	-.25	-.06	.19	-.09	.39
55 Family Income	(.45)	(.49)	(.64)	-.08	-.12	.04	.09	.88
56 Poverty	(-.34)	(-.58)	(-.57)	.05	.13	-.03	-.12	.81

Table 2. Continued

Variable	Urbanism	Level of Living	Population Growth	Agricultural Productivity
57 Well-to-do	(.58)	(.30)	(.65)	-.05
60 Home Ownership	(-.41)	(.33)	.13	(-.51)
61 Dwelling Newness	.13	.00	(.90)	-.22
63 Household Modernity	-.03	(.74)	.28	.20
64 Dwelling Condition	(.39)	(.60)	(.51)	.13
65 Crime	.29	-.15	.08	.06
66 Juvenile Delinquency	(.36)	-.12	.12	-.07
67 Child Aid	-.04	(-.62)	-.15	-.25
68 Welfare Self-sufficiency	-.15	(.46)	.04	(.34)
69 Relief Expenditure	(.62)	-.05	-.12	-.24
72 Population Increase	.04	.14	(.95)	-.10
74 Unemployment Index	-.25	(-.31)	-.17	(-.32)
76 Mental Illness II	.07	-.23	(-.33)	-.18
77 Suicides	-.20	.00	-.25	-.01
78 Alcoholics	(.90)	.03	.04	-.17
79 Venereal Disease	(.78)	-.08	.06	-.09
80 Overcrowding	-.03	(-.71)	.29	(-.31)
81 Persons Divorced or Separated	(.53)	-.19	-.06	-.07
82 Illegitimacy Rate, 1958-62	(.63)	(-.36)	-.13	-.11
83 Per Capita Personal Income	(.70)	.29	.04	.01
97 Persons per Car Registration	.00	(-.85)	-.18	-.20
101 Value Added per Worker	.16	.13	.15	.27

tivity (-.32). This latter finding is consistent with the original study which indicated that suicide is lower in urban than in rural areas. The rate is 10.0 per 100,000 persons in the fifteen most urban Ohio counties, *vs.* 15.5 in the fifteen most rural counties, despite the fact that most other studies have revealed higher urban than rural rates of suicide. This differential is best explained in terms of the relatively high proportion of Catholics in Ohio's largest cities and a disproportionately large number of Protestants in the extremely rural areas. Studies have consistently revealed lower suicide rates for Catholics than for Protestants.⁵ An age factor may also be involved, since the incidence of suicide varies directly with age,⁶ and the extremely rural counties contain a disproportionately large number of aged persons.

Substantial further evidence of the association between economic activity and social disorganization is provided by loadings on most of the indicators of social disorganization in the urbanism factor: Alcoholics (.90), Venereal Disease (.78), Persons Divorced or Separated (.53), Illegitimacy (.63), and Juvenile Delinquency (.36) (Table 2). Crime (.29) is just below the level of significance.

Still further evidence of the relationship between economic activity and social disorganization will be found in the intercorrelation matrix. Juvenile Delinquency, Alcoholism, Venereal Disease, Divorce and Separation, and Illegitimacy are, as expected, usually significantly related to economic activity. It should also be noted that, although most of the coefficients are below the level of significance, suicide is negatively associated with the indicators of economic activity. As previously observed, this finding is consistent with the original study.

3. *Level of Living and Economic Activity.* Four of the eleven key indicators of level of living are significantly related to economic activity (Table 1). As expected, there is a high positive correlation between Income and economic activity (.83) and a substantial negative relationship between Poverty and economic activity (-.69). Unemployment (-.45) and Unskilled Workers (-.38) are also negatively associated with economic activity. Although slightly below the level of significance, Persons per Car Registration, Overcrowding, and Child Aid are negatively associated economic activity. As expected, High School Education, High School Enrollment, and Household Modernity are positively related to economic activity, but they are also below the level of significance.

⁵ Russell Dynes, Alfred Clarke, Simon Dinitz, and Iwao Ishino, *Social Problems* (New York: Oxford University Press, 1964), p. 505.

⁶ Jack P. Gibbs, "Suicide," in *Contemporary Social Problems*, ed. Robert K. Merton and Robert A. Nisbet (New York: Harcourt, Brace, and World, Inc., 1961), p. 241.

Factor loadings in the Level of Living factor provide further evidence of the relationship between economic activity and level of living. White-collar Workers (.32), Manufacturing (.31), and Retail Trade (.38) are significantly related to economic activity, and Economic Complexity (.29) is just below the level of significance (Table 2). These relatively low loadings, and especially the low loadings on Wholesale Trade (.15), Services (.06), Commercial Activity (.21), Economic Base (-.09), and Value Added per Worker (.13), are, at least superficially, quite perplexing. However, data from the original study provide valuable insights.

A method was used in the initial study to measure the degree to which each county exhibits each factor.⁷ The highest level of living scores were found in the high-yield agricultural counties in northcentral and northwestern Ohio. On the other hand, the lowest level of living scores were found in the marginal farming areas of southern and southeastern Ohio, as well as in the extremely large cities. Despite the fact that income is typically high in the central urban counties of the largest cities, they contain a disproportionately large number of Negroes and whites in the lower socioeconomic class who of course can be expected to compare unfavorably on all of the key variables used in the calculation of county level of living scores. Obviously a somewhat different picture would emerge if a broader range of indicators was used as the basis for these scores.

The intercorrelation matrix reveals that most of the economic activity variables are predictably related to the level variables. It should be observed that typically the indicators of economic activity are negatively associated with Elementary School Education Only, Poverty, Home Ownership, and Unemployment. On the other hand, economic activity variables are usually directly related to College Education, Local Educational Expenditure, Educational Self-sufficiency, and Per Capita Local Expenditure for Education, Family Income, Well-to-do Families, Home Value, Dwelling Conditions, Relief Expenditures, and Per Capita Personal Income.

4. *Educational Need and Economic Activity.* Analysis of the ecological aspects of educational need in Ohio was the focus of an earlier study,⁸

⁷ Two equations were used to compare each county with counties representing the extremes of each factor. Although details of the technique cannot be presented here, it should be noted that only key variables were used in the computation of scores. For example, although 39 of 113 variables clustered to form the Level of Living factor, only the following were used to determine county level of living scores: High School Education, Persons per Auto, High School Enrollment, Household Modernity, Overcrowding, Technical Illiteracy, and Child Aid. Three criteria were used for inclusion of variables in the computation of scores: (1) strength of the variable loadings, (2) independence of variables in terms of loadings in the other factors, and (3) avoidance of overlapping due to the inclusion of more than one indicator of essentially the same thing.

⁸ Byron E. Munson, "Geographic and Economic Correlates of Educational Need in

which was also based on data from the original study. The following seven key variables were used as indicators of educational need: Technical Illiteracy, Elementary School Education Only, High School Enrollment, High School Education, College Education, Per Capita Educational Expenditure, and Total Expenditure. The same technique was used to profile educational need as was used to profile economic activity. Counties were ranked on each of these variables. The ranks were then summed for each county and the counties were reranked.⁹ This analysis revealed that the greatest educational need is in the highly rural counties, particularly the marginal or subsistence farming counties in the Appalachian Region of southern and southwestern Ohio. On the other hand, the lowest degree of educational need is found in the highly urbanized counties, especially along the northeastern to southwestern axis, and in the most prosperous northwestern rural counties. Space will not permit a further discussion of the results of the study. However, in summary we may conclude that the data suggest that an inadequate economic base and low income are basic to a whole constellation of social problems, including inadequate education.

Supportive evidence is provided by the current analysis which revealed a substantial negative relationship between economic activity and educational need (-.56) (Table 1). One might predict an even higher negative relationship. However, one must bear in mind that, although the central urban counties of the large cities exhibit the highest economic activity, they also have a relatively high proportion of Negroes and whites in the lower socioeconomic class. The centrifugal movement of middle- and upper-class families away from the central metropolitan county into the adjacent peripheral counties is one reason for this large proportion of lower-class families in the central urban county. This movement has been accompanied, too, by an influx of families in the lower class, especially Negro and Southern Appalachian whites, into the central city. This is reflected in Hamilton County, the county in which Cincinnati is located, which exhibits a score of 5 in educational need, and a score of 1 in economic activity. Franklin and Lucas counties, the counties in which Columbus and Toledo are located, each earned a score of 8 in educational need and a score of 1 in economic activity. Cuyahoga County

Ohio," *Bulletin of Business Research*, Vol. 42, No. 2 (Columbus, Ohio: Bureau of Business Research, The Ohio State University, March, 1967).

⁹ Ranks were reversed where necessary to associate high rank with high educational need.

scored 8 and 1. Of the large urban counties, Montgomery comes the closest—with a score of 10 in educational need and a score of 1 in economic activity—to approximating the expectation of extremely high economic activity and extremely low educational need. Inconsistencies appear in a number of other less urbanized counties. To illustrate, Allen County scored 7 in educational need and 1 in economic activity; Miami County scored 9 and 4; Butler County scored 6 and 2; and Lawrence County scored 1 and 6. Further more detailed study beyond the scope of the present analysis is necessary to determine the basis for these latter inconsistencies.

Loadings on some of the measures of educational need in the urbanism factor provide inferential evidence of the relationship between economic activity and educational need (Table 2). A significant negative loading will be observed for the variable Elementary Education only ($-.41$) in the urbanism factor and positive loadings will be found for College Education ($.46$), Local Educational Expenditure ($.44$), and Educational Self-sufficiency ($.41$).

Additional evidence of the relationship between economic activity and educational need is provided by the intercorrelation matrix. College Education, Local Educational Expenditure, Educational Self-sufficiency, and Per Capita Local Expenditure for Education are almost without exception strongly associated with economic activity; and Elementary School Education Only is, without variation, negatively associated with economic activity.

III

Summary and Conclusions

THE ECOLOGICAL ASPECTS OF economic activity, as well as the interrelationships between economic activity and other critical dimensions of the community, have been examined. Economic activity ranges from extremely high in the largest cities to extremely low in the highly rural counties, especially in the marginal farming counties in the southern and southeastern Appalachian areas. The low to extremely low economic activity scores in many of the suburban counties of the largest cities were less predictable, probably resulting from the dominance of the central urban county in most types of economic activity in the metropolitan areas.

A number of the findings were readily predictable because of the known relationships between economic activity and urbanization. However, to the extent that economic activity and urbanization are separate dimensions, the findings are unpredictable. Of course, our data show a substantial relationship between social disorganization and economic activity, since

both high economic activity and a high degree of social disorganization are urban attributes. The association between economic activity and level of living, however, was lower than expected. In part this results from the presence of a relatively high proportion of Negroes and whites in the lower socioeconomic class in the central urban counties of the largest cities where economic activity is the highest. A further reduction in the relationship between economic activity and level of living results from the fact that the highest level of living typically is found in the high-yield agricultural counties in northcentral and northwestern Ohio where economic activity is most frequently near the midpoint to low.

Although comparison of educational need with economic activity revealed a substantial negative relationship, undoubtedly it would have been higher but for the presence of a disproportionately large number of lower-class Negroes and whites in the central urban county of the largest cities, where economic activity is the highest. A similar effect is produced by the relatively low economic activity scores in the high-yield agricultural counties, which rank from low to extremely low in educational needs.

To the extent that the social and economic structure is different in other parts of the country, of course one should exercise caution in generalizing from our Ohio data. Clearly much more research is required before a theoretical framework can be established. Nevertheless empirical evidence has been presented which at least provides the basis for a better understanding of the relationships between the economic structure and the social structure of the community. Such studies have been neglected by sociologists and economists alike, although substantial data have been available for quite some time. Despite the fact the county is only a crude approximation of the community, it seems probable that there are enough similarities to provide some basis for generalizations concerning the community.

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The Nauruans Recover Their Land

THREE THOUSAND MEMBERS of the community living on the small phosphate-rich island of Nauru in the midwest Pacific achieved full independence on January 31, 1968, thus ending 80 years of colonial, League of Nations and United Nations trust territory status. Nauru is a small, pear-shaped coral island 2,530 miles northeast of Sydney, Australia, and about 5,000 miles southwest of Vancouver.

Nauru was discovered in 1798 by Captain John Fearn in the American whaling ship *Hunter*. He named it Pleasant Island because of the pleasing appearance and kindly nature of its people, who are a mixture of Polynesian, Micronesian and Melanesian, speaking a language unrelated to any other. The island was annexed by Germany in 1888 and administered as part of German New Guinea.

The rich phosphate deposit was discovered in 1900 by an Australian. Mining operations were begun in 1907 by the Pacific Phosphate Company, which exported the phosphate to Australia to make fertilizer.

The Nauruans claimed ownership of the phosphate which the administering governments [Australia, New Zealand and Great Britain] said was vested in the British Phosphate Commissioners. The original League of Nations mandate did not provide for any royalty payment to the Nauruans, but in 1920 the BPC began paying ½d a ton. By 1964 this was increased to 3s8d a ton. In July 1964, the royalty was increased to 13s6d, and in 1965 to 17s6d. After lengthy negotiations, an agreement was signed, in June 1967, whereby the Nauruans should acquire full control of the phosphate industry over a three-year period on paying the estimated value of the capital assets of the British Phosphate Commissioners—\$21–22 million (A).

At the time of this agreement, there were estimated to be about 50 million tons of phosphate left on the island. With extraction at the rate of 2 million tons a year, the deposit would be exhausted by 1992. It costs about \$4.00 (A) to quarry, dry and load on ships one ton of phosphate. The agreement provides for a payment of \$11.00 (A) a ton until the assets of the BPC are bought out, and then \$12 (A) a ton, or the Florida phosphate price. On this basis, the Nauruans would earn \$7.00 (A) to \$8.00 (A) a ton, a small part of which would be paid to the individual land owner, \$1.00 (A) a ton would be used to pay the costs of government, and the remainder would be invested in a long-term investment fund which would reach about \$400 million (A) by 1990. Provided this money is invested wisely, it should serve to assure the economic future of the Nauruan people. [From *External Affairs*, Ottawa, Canada.]

The Economics of Loansharking

By LAWRENCE J. KAPLAN and SALVATORE MATTEIS

Introduction

LOANSHARKING HAS BECOME a major source of revenue for the underworld and a major route by which crime syndicates have infiltrated legitimate businesses. When taken over by the loansharks, these businesses are used to further other criminal enterprises. Since ancient times the moneylender has played a significant role in society. His sharp practices and hard heart have been highlighted in literature. The borrower in our modern day who is in some kind of financial difficulty is not too different from his counterpart of other eras. The pressure on the borrower to obtain a loan often means he cannot quibble over terms. This being the case, the moneylender is in a position to make the most of such a situation.

The numerous public documents and newspaper reports are replete with cases in which consumers have been charged an astronomical true annual rate of interest for a small loan. Interest rates charged by loansharks vary from 200 per cent per year to 2000 per cent per year, depending on the relationship between lender and borrower, the intended use of the money, the size of the loan, and the repayment potential. The classic "6-for-5" loan, 20 per cent a week, is common with small borrowers. Payments may be due by a certain hour on a certain day, and a few minutes default may result in a rise in interest rates, or even more drastic action. In modern terminology, this type of lending operation has come to be known as "loansharking."

Loansharking is the lending of money at higher rates than the legally prescribed limit. After gambling, loansharking is the second highest source of revenue for organized crime.¹ Gambling profits often provide the initial capital for loanshark operations. Law-enforcement officials suggest that the borrowers who are victimized by these activities include gamblers who borrow to pay gambling losses, narcotics users who borrow to purchase drugs, and wage earners who may require a small loan until next payday, or who may be employed in particular occupations dominated by labor racketeers who insist that workers borrow as a requirement for work, such as longshoremen.² Another outlet for loans includes some

¹ *The Challenge of Crime in a Free Society*, a report by the President's Commission on Law Enforcement and Administration of Justice (Washington, D.C.: U.S. Government Printing Office, 1967), p. 189.

² *Ibid.*

small businessmen who borrow when legitimate credit channels are closed. Bigger borrowers include individuals and corporations requiring large sums of money quickly, often for legitimate business activities.

This study is designed to investigate the historical background of usury through the ages, its contemporary status in the United States, including a case study of a loanshark operation, the business of loansharking, its source of funds, interest rates, business volume, and major areas of operation, including infiltration into legitimate business, summary, recommendations, and conclusions.

I

Usury Through the Ages

USURY, IN ITS ORIGINAL CONCEPT, was synonymous with interest. In biblical times it referred to all returns derived from the lending of capital. The prohibition against usury or interest appears twice in the Old Testament.³

Anti-usury laws appeared later in Greece and Rome. In Athens, the legislation of Solon limited the rate of interest in order to ease the financial burden of the agricultural population. In Rome, the Twelve Tables established a maximum interest rate of 10 per cent. In 342 B.C. a law was passed prohibiting the taking of any payment for loans. The law, however, was never enforced, and wealthy individuals developed and flourished through "usurious" activities.

The attitude of the church was based upon the scriptural command of St. Luke, "Lend, hoping for nothing again."⁴ This idea was gradually expanded so that by the Middle Ages all interest charges were defined as usury. Usury was no mere transgression of the law but a mortal sin punishable by excommunication. This rigid measure originally applied only to the clergy but was subsequently extended to all lay Christians.⁵

During the sixteenth and seventeenth centuries some writers began to distinguish between interest, which was considered a "fair" return on a loan, and usury, or an excessive charge for a loan. By the eighteenth century, under the impact of an emerging capitalism, the anti-usury attitude of the church receded into the background, and moneylending became respectable. The problem which plagued the Romans once again came to the fore, namely, what is a usurious rate?

Early economists of the eighteenth century began to grapple with this

³ *Leviticus* 25:36, and *Deuteronomy* 23:20.

⁴ *Luke* 6:35.

⁵ G. A. T. O'Brien, *An Essay on Medieval Economic Teaching* (London: 1920), p. 174.

problem. At that time the maximum rate generally prevailing was 5 per cent. Jeremy Bentham, in his *Defense of Usury* in 1787, demanded the same degree of freedom for money trade as that prevailing in commodity trade. This was a right derived from the concept of personal liberty. The progress of economic liberalism in the nineteenth century gradually resulted in the repeal of anti-usury laws. England removed its ban on usury in 1854, Holland in 1857, Belgium in 1865, and Prussia and the North German Federation in 1867.

The repeal of the anti-usury laws in these countries created a flood of credit abuses. In the latter part of the nineteenth century many of the countries, therefore reenacted legislation designed to protect inexperienced or careless borrowers from the moneylender.

Historically, the attitude toward usury kept changing with the times. A transaction condemned in one historical period as usurious was recognized as a normal economic practice in another. And practices among countries varied. Practices outlawed and punished in one country were freely permitted in another. Thus, usury as an economic concept may be understood only in the light of the moral and legal norms prevailing in a particular period.⁶

II

Usury in the United States

ATTEMPTS TO CONTROL CHARGES on loans were made by usury laws. In the United States these regulations usually took the form of state usury laws. Generally, these limited the interest charged to 10 to 12 per cent on a true annual rate. If a lender charged more than this stipulated amount, he was guilty of usury and subject to punishment.

In practice, usury laws did not provide the protection required by needy consumers. A small consumer loan is relatively expensive to process and administer. The legal limits on interest imposed by law discouraged respectable financial institutions from making consumer loans. However, the desperate need for money by low-income factory workers as well as higher income groups was ever-present. The loanshark, recognizing the demand, sought to supply it. The loanshark operation was illegal under the law and so rates charged were as high as the traffic would bear. Borrowers were intimidated and often were made to remain perpetually in debt, and required to pay the exorbitant interest rates.

The Russell Sage Foundation undertook studies of these conditions early

⁶ W. J. Ashley, *An Introduction to English Economic History and Theory*, London, 1906-1909, 2 volumes. Vol. I, pt. 1, pp. 148-163; pt. 2, pp. 377-488.

in the century.⁷ Their studies concluded that small consumer loans represented a special area of finance which called for special legislation. The studies argued that making small consumer loans was too expensive for reputable institutions to handle, and therefore encouraged the illegal operations of the loanshark. The studies suggested that special legislation was required which would increase the legal limit on small loans so that legitimate financial agencies would find it profitable.

With the support and encouragement of the Russell Sage Foundation, Massachusetts passed the first small loan law in 1911. All the laws adopted elsewhere subsequently operate about the same. Financial institutions which make small consumer loans are licensed and are exempt from the usury laws. They are restricted to a sliding scale of interest charges ranging from 18 per cent to 30 per cent a year on the unpaid principal. They are also restricted to a maximum loan of \$800.

In New York State, for example, the usury laws apply only to loans under \$800 made to individuals. No criminal penalty applies to loans to individuals in excess of \$800. Moreover, no criminal penalty attaches to loans made to corporations regardless of how onerous and unconscionable a rate of interest is imposed.

In 1928 the National City Bank of New York announced its entry into the personal loan field. This move was acclaimed by the press with such headlines as:

"LOAN SHARKS DOOM SOUNDED BY BIG BANKERS."

"USURY DEALT HEAVY BLOW BY BANK'S ACTION."

"NATION'S BIGGEST BANK FIGHTS LOAN SHARKS."⁸

Up to that time large commercial banks stayed out of the consumer loan business. Since 1928 personal loan departments have grown to be a major part of modern banking. Still the loanshark has survived and has even expanded his operations. Various public hearings show that loan-sharks have infiltrated banks and many other legitimate businesses.⁹

III

Case Study of a Loanshark Operation

THE TYPICAL LOANSHARK OPERATION is often called a "6-for-5" opera-

⁷ Arthur B. Ham, *The Campaign Against the Loanshark* (New York: Russell Sage Foundation, 1912).

⁸ Richard B. Miller, "The Impingement of Loansharks on the Banking Industry," *Bankers Magazine*, 149 (Winter, 1966), pp. 84-91.

⁹ U.S. House of Representatives, *Investigation into Crown Savings Bank Failure* (Washington, D.C.: U. S. Government Printing Office, 1966).

tion, because that is how it started.¹⁰ In the following case study, "6-for-5" loans constitute a small proportion of the business. This illustrative case is a relatively small operation compared with similar operations in Las Vegas, Los Angeles, or even in factory cities such as New York or Pittsburgh. The loanshark in our case study—let's call him Joe—usually has between \$50,000 and \$75,000 outstanding. He employs nineteen runners who make actual contact with borrowers. All the runners are employed full-time in the four factories covered by his operation and enjoy extra earnings, averaging about \$50 a week, working for him on a part-time basis. A few, with good connections, make more than \$100 a week, but the job requires only two to three hours a week. Earnings are based upon straight commission.

Joe also employs five full-time, supervising bookkeepers at a straight salary of \$200 a week each. Each fulltime man keeps the records for three to four runners.

Like most businesses, loansharking is subject to seasonal variations. Activity increases at Christmas or during the horse-racing season, spring and summer. A plant layoff increases activity. Those laid off can pay only the interest, which is acceptable to the loanshark. And more borrowers seek loans. If Joe is short, he goes to his downtown connection and borrows \$10,000 for which he must pay a flat 1 per cent a week, or \$100 a week. The loan made to a factory borrower requires no collateral, no contract, no closing fees, no insurance fees, not even a signature. A man's word is all that is required. Interest is not deducted from the loan in advance, and when a man pays off the principal, he gets no receipt. To obtain a loan from a legal source requires making application, a credit check, and possibly a co-signer. In loansharking, the runner carries a large roll of money and peels bills off for anybody at any time.

The rate of interest is lower on a larger loan than it is for smaller ones. An individual who borrows \$5 until next payday pays back \$6, a 20 per cent interest charge. The person who needs the \$5 does not object to the \$1 charge. A borrower of \$100 until next payday pays back \$110, a 10 per cent interest charge. And if the borrower has difficulty in repaying, he need only maintain the interest payments every payday.

The runners are usually keen in financial matters and often dispense advice free of charge. For example, a collection agency was hounding a longshoreman to settle his wife's doctor bills. He approached the runner for a loan, but was advised to discuss the problem with the doctor and to

¹⁰ "Confessions of a Six-For-Five Juice Man," *Burroughs Clearing House*, 49 (April, 1965), pp. 40-41.

tell the doctor to be patient for a while longer. "After all," he was told to say, "you cannot repossess an appendectomy." Those engaged in loan-sharking know that a satisfied customer is good for business.

The loansharking business is particularly designed to dispense short-term loans, not long-term loans for home improvements or for purchase of furniture. A typical borrower may be a young man in one of the four factories who wishes to finance a Saturday-night date. He borrows \$50. A successful evening is worth \$10 interest. Or a gambler hears of a poker game. Hoping for a winning streak, he borrows a few hundred dollars for a stake. The loanshark may also team up with a bookie and perhaps jointly hire a shill who serves up hot tips on the races. In this setup, the trio may collect a good-sized proportion of the weekly factory payroll.

Joe occasionally has a bad-debt problem. When a borrower refuses to pay back his loan the loanshark calls in the muscle squad. This is expensive. To have a man's legs broken used to cost \$50, but inflation has doubled this cost. It is also not good business, because the borrower then cannot work and the possibility of repayment disappears. But if a man loses his job and cannot repay his loan, the loanshark may use him as an example for the rest and pay the muscle squad to rough him up.

Normally a finger deliberately slit open with a razor blade enables the borrower to stay on the job—while reminding him of the amount due next payday. Or a few teeth may be pulled out with a pair of pliers. Or, perhaps, a broken nose may serve the same purpose. Other tactics include street-beatings with bicycle chains or toy baseball bats. Muscle is only part-time work. In a well-functioning business operation, muscle is seldom needed for collections.

Joe is a solid member of the middle-class community. He pays taxes, lives in a quiet residential community, participates in civic projects, donates money to charitable organizations and to his church, and sends his children to select colleges. As a rule, the typical loanshark is no longer a crude, flashily dressed, fast-living character. Generally, the top-level syndicate leader wears ivy league suits. Sometimes he hires public relations firms to add luster to his image. While technically he is classified as a gangster, the loanshark considers himself in the money business, supplying an existing demand. And, incidentally, the work he does is legal in most other countries.

IV

Organization of the Loanshark Racket

THE USURIOUS MONEYLENDING BUSINESS operates successfully through

existing underworld organizational structures. Three main echelons may be identified.¹¹ At the top level is the underworld boss. He supplies the money and directs the operation. The bosses distribute millions of dollars to the second echelon. These are the chief lieutenants or under-bosses who serve the top echelon with absolute allegiance. The amount of money received from the top depends upon an under-boss's past performance and market demand for money. The only requirement is that the second echelon must pay 1 per cent weekly for the money in use. This is a levy upon the second echelon's income derived from interest and penalty charges on usurious loans. The underworld term for interest and penalty charges is *vigorish*. Each under-boss is an independent contractor and knows that the 1 per cent return to the boss is mandatory, with no excuses for failure. The second echelon loans money to the third echelon. These are the "6-for-5" operators who deal with the "public," the victims of this underworld moneylending system.

TABLE 1
INTEREST RATES CHARGED IN LOANSHARKING

Echelon	Interest Rate Return (Per Cent)	
	<i>Weekly</i>	<i>Annually</i>
First	1	52
Second	1.5-2.5	78-130
Third	5	260

V

The Business of Loansharking

THE LUCRATIVE LOANSHARKING BUSINESS is based upon the exorbitant rates of interest charged as the money flows from the top echelon to the borrower and back to the source.¹² Data collected by the New York State Commission of Investigation have revealed the pattern of interest rates shown in Table 1.

While the top echelon receives a weekly return of 1 per cent, borrowers pay the third-echelon loanshark a weekly rate of interest of not less than 5 per cent per week.

The pattern has a slight variation. Cases on record reveal second-echelon loansharks who handle their own loans. In New York City these are among the major loansharks who can loan \$1 million at a time to a

¹¹ New York State Commission of Investigation, *An Investigation of the Loanshark Racket*, New York, April, 1965.

¹² *Ibid.*

borrower without collateral. The lender makes clear to the borrower that "Your body is your collateral."

Of the five recognized criminal syndicates operating in New York City, testimony at the public hearings of the New York State Crime Commission revealed that 121 high-echelon members were engaged in the loansharking business. Usurious moneylending outside the syndicates is almost impossible. This is revealed by the case of a professional gambler who operated a numbers or policy racket in Jersey City and also operated as a loanshark. Unable to move his money into new areas of activity, he had to hide it. In July, 1962, a hoard of approximately \$2.5 million dollars in cash was found hidden in a Jersey City garage.¹³

VI

The Profits of Loansharking

THE LOANSHARKING BUSINESS yields enormous profits. A syndicate boss may have a Christmas party at his home and invite ten trusted lieutenants. At the party he may distribute \$1 million in cash, or \$100,000 per man, with the request that each must return to him 1 per cent per week, thus yielding \$10,000 a week, or \$520,000 a year. The gang leader's only problem is to find five more men at next year's Christmas party to lend out the \$520,000 earned the previous year.

To carry this example to the third-echelon lender who charges a minimum of 5 per cent weekly, \$1 million at this level can produce \$50,000 a week or \$2.6 million a year. Of this amount, \$15,000 to \$25,000 a week—or up to \$1.3 million a year—is passed up the line to underworld bosses.

It is almost impossible to estimate the volume of the loansharking operation in the United States. Based upon the operations of a single loanshark in New York City, according to official testimony, over a five-year period, \$500,000 was pyramided to \$7.5 million.¹⁴ A conservative estimate would put the loanshark business in the United States in the \$1 to \$2 billion class.

VII

Underworld Infiltration into Legitimate Business

TODAY CRIMINAL GANGS exist in every sizable city in America. The U. S. Senate's Permanent Subcommittee on Investigations and the Federal Bureau of Investigation are aware of criminal activities in New York,

¹³ *The New York Times*, July 4, 1962, p. 1, col. 2.

¹⁴ New York State Commission of Investigation, *op. cit.*

Chicago, Philadelphia, Detroit, Cleveland, St. Louis, Boston, New Orleans, Pittsburgh, Buffalo, Kansas City, Miami, Tampa, Providence, and Las Vegas. Many of the richest gangsters of today made their millions in the old prohibition days. With the repeal of the 18th Amendment on December 5, 1933, and the increase in prosecutions for income tax evasion by the Internal Revenue Service that era came to an end.

Government law-enforcement officials currently recognize that the big money in crime is made in gambling, narcotics, and loansharking. These illegal activities provide the billions which the underworld is funneling into legitimate businesses. When a businessman falls behind on his payments to a loanshark, the gangster often simply takes over the business. This is a convenient vehicle for turning so-called "black money" into "white money," or legitimate funds.

The New York State Commission of Investigation points out that loansharks have constantly used corporate borrowers as a cover or concealing device for themselves and other hoodlums. Typical is the instance in which a loanshark took his weekly vigorous payments in the form of a salary check from an automobile dealer to whom he had loaned money. The gangster appeared on the corporate books as an outside salesman. He never sold a car. When questioned, he was able to claim legitimate employment as evidenced by his regular weekly paycheck.¹⁵

In another case an heir to a large sum of money in trust attempted to sell his inheritance rights for a usurious one-third the actual value of the trust fund.¹⁶

The Commission of Investigation also received testimony of an attempt by "the mob" to take over a bank, having as their objective the use of the institution as a cover for usurious moneylending operations.¹⁷

Organized crime appears to be infiltrating multimillion-dollar business enterprises. These include banks and Wall Street brokerage houses, big real estate syndicates, and large corporations which serve the public in numerous activities.¹⁸

In real estate, underworld investments run into "hundreds of millions," according to the U.S. Attorney. These investments are in hotels and skyscraper office buildings in all the major cities of the country.

In banks, enforcement officials affirm that criminal elements have pur-

¹⁵ New York State Commission of Investigation, *Transcript of the Public Hearing*, New York, December, 1964, p. 238.

¹⁶ *Ibid.*, p. 233.

¹⁷ *Ibid.*, p. 234.

¹⁸ "How Criminals Solve Their Investment Problem," *U.S. News and World Report*, 56 (March 30, 1964), pp. 74-76.

chased stock in many large institutions. One medium-sized bank in Detroit is owned outright by "the mob." It is known as the hoodlums' bank. Similar evidence has been collected in New York, Chicago, and Miami.¹⁹

In securities, official files reveal that organized criminals have infiltrated into brokerage firms. Several are "boiler room" operations which are set up to unload worthless stocks through high-pressure sales tactics.²⁰

In the garment industry, especially in the dress-manufacturing business, centered in New York, loansharks and racketeers play dominant roles. Many have become millionaires. The racketeers run nonunion shops by hiring killers and strong-arm men as "labor consultants." The loansharks supply unlimited amounts of cash quickly to assist the dress manufacturer through the production cycle. Inability to pay back the loan results in physical harm or a business take-over. One member of the underworld is said to own a string of dress factories.

In other businesses, the underworld has made serious inroads. The list of businesses dominated by criminal elements is long and includes firms in almost every type of legitimate business.

To counteract the growing infiltration of the underworld into legitimate business the United States government has increased its investigations in this area. An intelligence unit has been established in the organized crime section of the U.S. Department of Justice. It draws on the resources of more than twenty-five federal enforcement agencies. These include the F.B.I., the Securities and Exchange Commission, and the Treasury Department including the Internal Revenue Service, Secret Service, Narcotics Bureau, and Customs.

VIII

Summary and Recommendations

LOANSHARKING HAS GROWN to tremendous proportions, producing millions in revenue, victimizing many people, and bringing fear and violence into the community. A serious gap exists in the usury laws both at the federal and state levels of government. While traditional organized crime operations such as gambling, narcotics, and prostitution carry, to varying degrees, significant risks of prosecution and severe penalties, no comparable laws exist for the loanshark. Strong criminal laws against unconscionable usury are lacking. The underworld is aware that no crim-

¹⁹ New York Commission of Investigation, *An Investigation of the Loanshark Racket*, New York, April, 1965, pp. 66-77.

²⁰ *Ibid.*, pp. 57-67.

inal penalty attaches to usurious loans to corporations, or in the case of individuals, for loans in excess of \$800.

In the case of New York State, law-enforcement officials used to have available only two usury laws which carried a penalty. One was section 357 of the Banking Law, and the other, Section 2400 of the Penal Law.

Section 357 of Article IX of the New York State Banking Law, which regulated the small-loan business, penalized as a misdemeanor unlicensed lenders making to individuals loans of \$800 or less bearing more than the authorized rate of interest. This section was useful to some extent against the "6-for-5" type of loanshark. It was weak in that its violation constituted only a misdemeanor. Moreover, it provided no penalties against the top-echelon bosses.

Section 2400 of the New York State Penal Law penalized usury as a misdemeanor only when tools, implements of trade, or household goods were taken as security. This section was ineffective, because loansharks did not normally require collateral.

The New York State Commission of Investigation offered five recommendations at the conclusion of its public hearings which are designed to curb loansharking. These recommendations were based upon suggestions offered at the commission's hearings by the New York County District Attorney's office, Kings County District Attorney's office, New York City Police Department, Waterfront Commission of New York Harbor, and the Suffolk County Police Department.

Recommendation (1):

Add a new section to the New York State Penal Law which would make the charging of interest at a rate greater than 25 per cent a year on a loan to any individual, partnership, association, or corporation, the crime of "criminal usury," a felony.

Small loan companies which deal in high-risk, low-profit, small personal loans are permitted by present law to charge an effective rate of 21 per cent. Commercial factors, lending on accounts receivable, also charge up to 21 per cent. In loans of \$100 or less, the permitted statutory rate for small loan companies is over 30 per cent and would remain lawful under the proposal.

The 25 per cent rate or less is generally accepted by the community. A rate greater than 25 per cent is considered unconscionable. Declaring it such by criminal statute strikes the area dominated by the loanshark. Thus the creation of the crime of criminal usury is the basic recommendation. The other recommendations which follow implement and strengthen this basic recommendation for dealing with loansharking.

Under the law, conviction of a felony is punishable by imprisonment for a term not exceeding five years or by a fine not exceeding \$5,000, or both.

Recommendation (2):

Add a new section to the New York State Penal Law which would make possession of loansharking records a misdemeanor.

This section would provide law-enforcement officials with an additional effective weapon against the loanshark. First, loansharks must and do maintain records of loan transactions which identify borrowers, list principal balances, interest due and paid, and charges and penalties. These records are identifiable and susceptible to proof as such by expert testimony to the satisfaction of the court. The proposed section above is patterned after Sections 975 and 986b of the New York State Penal Law which make the possession of bookmaking or policy racket records unlawful.

Second, individual borrowers from loansharks are generally afraid to make formal complaints. With this section available, law-enforcement authorities would be able to obtain information necessary to investigations and to seize loanshark records while protecting the identity of an individual complainant. The loanshark could be successfully prosecuted under this proposed section, without necessity of borrowers' testimony in open court.

Recommendation (3):

Add a new section to the New York State Penal Law which grants immunity to witnesses in criminal usury investigations.

This proposed section would aid law-enforcement officials in reaching top-echelon loansharks by means of the testimony of accomplices or borrowers who may seek to hide behind the privilege against self-incrimination. This proposed section is patterned after other immunity provisions of the New York State Penal Law.

Recommendation (4):

Amend Section 242 of the New York State Penal Law to include "roughing up" tactics of loansharks as felonious assault in the second degree.

Recommendation (5):

Add a section that would permit corporations to interpose the defense of usury in actions to collect principal or interest on loans given at interest greater than 25 per cent per annum.

Loansharks make it a policy to loan to corporations. Individual borrowers often are required to incorporate before being granted a usurious

loan. The above recommendation would prevent a usurer from recovering on a loan for which he could be prosecuted.

Recommendation (6):

The Legislature and appropriate agencies of the state should consider the licensing and regulation of all persons or business entities engaged in the moneylending business in New York State who are not otherwise licensed under existing provisions of law.

This recommendation would help the government identify and supervise the loanshark who may continue in the moneylending business by conforming his operations to the bare requirements of the proposed recommendations (1) through (5) which would amend the State Penal Law.

On April 14, 1965, the Committee on Rules of the New York State Assembly introduced a bill which incorporated recommendations (1) through (5).²¹ The bill was passed by the Assembly on May 24, 1965, by the Senate on May 26, 1965, and signed into law by the Governor on June 6, 1965.²²

IX

Conclusion

IT IS EVIDENT that remedial action is required to curb loansharking and its ruthless methods of collection. Usury laws today are generally inadequate for dealing with the problem. They require strengthening. Primarily, the states should license individuals and businesses engaged in moneylending and thus be in a position to regulate this activity.

At the same time it must be recognized that loansharking is only one phase of organized criminal activity. The business of loansharking is the final stage in the process of earning profits through crime and then seeking profitable investments for these funds. Coordinated federal and state efforts directed toward the elimination of organized crime would be most effective in ferreting out the loansharking business.

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²¹ New York State Assembly Intro 5855, Assembly Print 6961.

²² New York State Statutes, Chapter 328, Laws of 1965.

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A Tax Tool for Meeting Urban Fiscal Crisis*

By M. MASON GAFFNEY†

MOST OF OUR CENTRAL CITIES, as is now well known, are threatened by a vicious circle which is related to property taxation.

As buildings become older, they tend to become fiscal deficits requiring more in cost than they return in taxes. As the central cities age, the buildings become old and fiscal-deficit generators. This requires the central city to increase its tax rate.

The higher tax rate in cities drives investors elsewhere, both home builders and industry, because whoever puts up a new building under this state of affairs tends to become a fiscal surplus generator, and no one really wants to be that: it means you pay more in taxes than you get back in services.

Since there are many competing jurisdictions, investors do not have to be fiscal surplus generators. They can find a warm welcome in outer communities at lower tax rates.

So, as the central cities move into the downspin of this unfortunate circle, they tend to lose industry and, as a result, lose employment opportunities. At the same time they tend to gain old dwellings which attract people with low incomes who increase welfare costs. They are left with a high percentage of old buildings, which generate fiscal deficits, and fewer and fewer surplus generators with which to meet them.

Now if, to solve this problem, cities slash services in order to lower tax rates, they find cutting services and reducing the quality of schools also drive away population and income and industry.

What the cities need are more revenues without increasing the burden of taxation.

One way to go about this is to reapportion the state legislatures and get back more [tax money] from the state, which cities richly deserve. I am sure we all applaud the recent tendencies in that direction, weak and halting though they may be. Reduced Federal farm and military and "moondoggle" programs would also help.

The second way is for cities to get more of their taxes from the land base rather than the building base.

* Excerpts from testimony at a hearing of the President's Commission on Urban Problems, Pittsburgh, Pa., June 11, 1967, former Senator Paul H. Douglas presiding.

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In that manner it is possible for a city to get as much tax revenue as it wants without driving away the capital it must attract and hold. If land becomes the tax base rather than buildings, the conflict which we think we see today between the low taxes necessary to attract capital and public services themselves is no longer a conflict. It is possible to raise services and still make a tax environment attractive to capital.

Some people fear that by exempting buildings from taxation a city would reduce its tax base. I do not believe that is so.

The tax on buildings ultimately is borne by the landowner in the form of lower land values. Nominally the tax appears to fall on capital. However, since capital is migratory, investors don't have to accept a lower rate of return in the jurisdiction that taxes them. Therefore they can and do shift the tax.

Now, as I used to see it, they shift it to the tenants; and, indeed, some of that occurs. Anything that reduces the supply of a commodity increases the price. If you reduce the supply of buildings, you can raise the rent. However, tenants are also migratory—less than investors who move through well-paved ways in search of higher returns—but in the long run they also are migratory, and increasingly so in this age of auto-mobility.

If taxes are not shifted forward to tenants in higher rents, that leaves the non-migratory element, the land, to absorb the tax.

So the effect of the tax on buildings is to lower the value of land on which those buildings might be placed. Conversely, to remove the tax on buildings is to create a benefit to the landowner which should be capitalized into higher land values.

Therefore, when you remove the tax from buildings and shift it to land, you do not reduce the tax base. You are basically taxing the same real estate, just differently. The tax is no longer contingent on the owner putting up a structure. The tax is determined by potential value—if the assessor does his job well—and not on actual use.

I go further and say as a result of removing the tax from buildings and levying the property tax on site value alone, the tax base actually should increase.

One reason is what economists like to call the "excess burden of indirect taxation."

Suppose I own a piece of land and erect a 30-story building on it. The fact that my tax bill rises when I put up the building makes the upper stories submarginal. Land is space, and space has a third dimension. Think of urban space as being subdivided into strata. On

every site, however high its value, there is a marginal stratum. The top story of a high-rise building occupies the marginal stratum of space.

The top story which would be just marginal without taxes becomes submarginal in the presence of a tax on buildings. Several layers below, a story which would be better than marginal in the absence of taxes becomes just marginal. Those stories in between, which are better than marginal in the absence of taxes, are destroyed before they are built, *i.e.*, not built at all, because of the threat of taxes. These would have yielded a surplus above cost, adding to ground rent and land value.

To remove taxes on buildings therefore is to permit each site to be developed more intensively and generate additional rents over and above what it does under the threat of taxes on buildings.

A good way to look at this is to think of there being two equities in land, a public one asserted by taxes and a private one taking what remains. The best use of land, from a social viewpoint, is the use that maximizes the sum of the public and private equities.

But the decision-maker is the private owner, whose motive, of course, is to maximize the private equity alone. A good tax is one so structured that the private decision-maker, in maximizing his own equity, also maximizes the sum of the private and public equity.

The building tax is a bad one because the private income taxes is maximized at a much lesser intensity than would maximize the sum of private and public income. Thus it creates an artificial conflict between private interest and public interest. The site-value tax, in contrast, is free of this fault.

A second aspect of "excess burden" has to do with the timing of urban renewal. You can think of the margin of land use in terms of time, as well as space: *i.e.*, in the fourth dimension as well as the third. Advancing the date of site renewal toward the present by ten years is moving into a reach of time that is made submarginal by imposition of a tax on new buildings.

Of course, when you put up a new building, your property tax bill goes up by a very large factor. That tends to retard the optimum date of site renewal from the viewpoint of the landowner who, of course, is interested in maximizing his equity after taxes.

Untaxing buildings will also make it possible to lower certain public costs, making the tax base go further. As one example of this, consider vertical transportation. Vertical transportation is a substitute for horizontal transportation—not that it gets you to the same place, any more than lateral streets get you to the same places as longitudinal ones, but

it taps new strata of space that can be linked into the urban nexus with much less increase of load on streets in the first two dimensions than if more horizontal space were tapped. That is self-evident geometry.

We hear a lot these days about "intermodal bias," referring to the public subsidy in auto transport. We should also be thinking about interdimensional bias. We subsidize horizontal transport, but we tax vertical transport by the building tax. Vertical transport is almost always supplied privately. Something like one-third of the cost of a high-rise building consists of the elevators, utility core, stairways, and other elements that come under "vertical transportation." Private builders supply this at their own expense and then we tax it besides. If there were more of it, we should need less public outlay on streets and utilities.

Untaxing buildings should also reduce welfare cost. A tax system which accelerates renewal causes old buildings to be replaced by new ones. The inhabitants of new buildings throw less of a load on the welfare rolls than the inhabitants of the old. From a purely local point of view the benefit is obvious and the argument overwhelming.

From a national viewpoint the argument requires more thought but is equally compelling.

You frequently run into opposition to urban renewal from those who don't want to displace the people in the area being renewed. It sometimes seems the city is dumping welfare problems on the rest of the world.

I don't believe that is a correct analysis. There is no solution to the housing problem for poor people without building more buildings. The ultimate thing that will improve the housing conditions of the poor, and everyone else, is to increase the supply of quality buildings, which in the main means new buildings, the idolaters and collectors of antiquity notwithstanding. In the process you frequently tear down old ones and replace them with new, better and at higher density. The net result is increased supply. This lowers the price, making better housing available for poor and rich and middling alike, and creating new employment opportunities in building, and operating buildings once built, to pull people off welfare.

It is a fair criticism of the present Federal Urban Renewal Program that it chronically clears and sterilizes more land than it renews, adding something to its bombed-out inventory each year. That really does dump welfare problems and reduces net housing supply. The criticism and resentment generated by that problem should not, however, be directed against a proposal to untax new buildings. For this, the present proposal,

stimulates demolition only by increasing the positive incentive of builders to salvage derelict lands for immediate renewal.

Another general reason why the land tax base would be greater than the present property tax base is really a set of reasons, which may be summed up in such expressions as "the economics of urban agglomeration," or urban "linkages," or Adam Smith's dictum that "The division of labor is limited by the extent of the market."

My conclusion follows in four steps: 1) Cities exist to bring people together—for cooperation, mutual aid, sociability, cost-sharing, specialization, diversification and stability, exchange, etc.; 2) These collective benefits are captured in the rent of urban land and capitalized into land values; 3) Each new building not only develops the potential rent of its own site, but on balance adds to the potential rent of neighboring sites, whose development in turn feeds back an added potential rent on the first site; 4) Taxing buildings inhibits new buildings and quality building and intensive building and so prevents full realization of an enormous urban potentiality above and beyond the simpler "excess burden" I described earlier.

For example, in a large market most facilities enjoy high "load factors," the ratio of mean load to peak load capacity. Facilities get used around the clock and the calendar, so capital need not be dead most of the time as it is in small towns and remote suburbs. For the other, almost everyone observes it is usually better to have a new building as your neighbor than an old one. New buildings not only generate fiscal surpluses themselves but radiate external economies which bolster the value of nearby property.

For those general reasons, then, I don't believe there is any danger of losing the tax base by exempting buildings. And if I should be wrong, an additional advantage is that you can go right ahead and increase the tax rate as much as needed without doing any damage whatever to the profit motive.

You can go all out in taxing a piece of land and it will never get up and walk out of town; whereas, if you do the same thing to buildings placed on the land, they won't walk out of town today, but as they get old the sinking funds to replace them will be reinvested elsewhere, leaving your city with the fiscal deficits while the surplus generators are off taking the sun in California or overseas.

The site value tax automatically solves certain perplexing problems of distributive equity. When you grant the favor of intensive zoning to one land owner and deny it to another, you are redistributing wealth in

a very heavy-handed manner. Under the site value system, favorable zoning would also be favored with the equipoise of heavier taxation because the right to develop land more intensively makes land more valuable.

The rent surpluses of the central cities, which are capitalized into the highest land values per square foot in the world, would also be tapped and spread around, and in a manner compatible with economic efficiency.

Please don't tell me this is unjust to vested interests, because we already do a good deal of this sort of thing today through our utility pricing practice which charges everybody the same rate no matter where he is located, even though by this means the rich central territory is carrying the lean, low-density peripheral areas of urban sprawl. The site-value tax achieves the same distributive goal as our utility pricing practices, that is, it taps central rents to benefit everyone, spreading the rent thin. But it does the job in a way that is compatible with economic efficiency, while our uneconomical utility pricing practices destroy half the pie in the process of sharing it.

Another advantage of the site value system at the national level, and also at the local level, would be to increase employment opportunity: in the construction business first, and through reverberating effects in all businesses. By removing taxes from buildings you would encourage more frequent renewal. The effect is somewhat the same as lowering the interest rate paid by builders when they borrow. Thereby you would increase employment opportunities, and that lowers welfare costs.

Yet another advantage of the site value system is the advantage it offers to small business. This may best be understood through the phenomenon of credit rationing. Under the present system, when we put up a new building, we are immediately hit with our heaviest taxes which add greatly to the risk and credit requirement. This helps to ration out those firms which have a particularly hard time raising money. These tend to be the small firms, the competitive cutting edge of our economy which makes the free market work the way we like to preach that it does.

A tax on site values, by contrast, begins at a low level and does not go up at the moment of greatest capital need. It remains at the same level it was before. It might be construed as a loan from the city treasury to the builder—a loan which he pays back in the later years of the building. Thus it favors the credit-weak over the giant corporations which have had such a big piece of the little action in urban renewal we have had thus far.

A Critique Of Positive Economics

By LEWIS E. HILL

I

Introduction

POSITIVISM HOLDS THAT sense experiences and their logical and mathematical treatment are the exclusive source of all worthwhile information. Positivism rejects introspection and intuition as sources of knowledge. It also rejects metaphysics and theology as methods of analyzing knowledge. Positivism limits validity to positive facts, which are the facts of immediate perception, and to the relations and uniformities among them.¹ One of the most basic principles of positivism is the principle of verification, which requires that all positive statements must be capable of confirmation or contradiction by observed reality.²

Positivism, as a school of philosophical thought, was originated by Auguste Comte³ in the 1820's and 1830's. It was introduced into economics by John Stuart Mill⁴ in the 1860's. Positive economics was developed and advocated by John Neville Keynes⁵ in the 1890's and was elaborated and popularized by Lionel Robbins⁶ in the 1930's. Meanwhile, in the 1920's and 1930's, the philosophers of the "Vienna Circle" were developing a new and more rigorous form of positivism which they designated "logical positivism." The logical positivists of the Vienna Circle demanded not only that a meaningful statement must be subjected to empirical verification, but also that it must have logical form and substance.⁷

Karl Popper,⁸ who is known primarily as a philosopher of science, was not a member of the Vienna Circle and, in fact, denied being a positivist.

¹ Franz Adler, "Positivism," *A Dictionary of the Social Sciences* (Glencoe, Ill.: The Free Press, 1964), pp. 520-1. Guido de Ruggiero, "Positivism," *Encyclopaedia of the Social Sciences* (New York: The Macmillan Company, 1934), Vol. XII, pp. 260-5.

² A. J. Ayer, "Verification and Experience," *Logical Positivism* (Glencoe, Ill.: The Free Press, 1959), pp. 228-43.

³ Auguste Comte, *The Positive Philosophy*, freely translated and condensed by Harriet Martineau in 3 vols. (London: George Bell & Sons, 1896).

⁴ John Stuart Mill, *Auguste Comte and Positivism* (London: N. Thubner & Co., 1965).

⁵ John Neville Keynes, *The Scope and Method of Political Economy* (London: Macmillan and Company, 1891).

⁶ Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, 2nd ed. (London: Macmillan and Company, 1935).

⁷ A. J. Ayer, "Introduction," *Logical Positivism*, *op. cit.*, pp. 3 ff.

⁸ Karl Popper, *The Logic of Scientific Discovery* (New York: Harper and Row, 1965).

However, Popper is very close to the positivists in many respects and has been more influential on contemporary positive economists than the logical positivists of the Vienna Circle. Popper emphasizes the importance of scientific theories and the need to verify them through critical testing. He suggests four tests for a scientific theory. First, the various conclusions of a theory should be compared among themselves to test the internal consistency of the theory. Second, the logical structure of the theory should be examined to test its technical validity. Third, the theory should be compared with other theories to test whether it is superior to other theories which it is intended to replace, supplement, or elaborate. Fourth, the empirical applications or predictions of a theory should be compared to observed reality to test the empirical relevance of the theory.⁹ Thus, while Popper is too deductive in his logic to qualify as a logical positivist, he has developed a system for the verification of scientific theories which has proven to be very useful to positive economists and very influential on the development of economic positivism.

Undoubtedly, the greatest of the contemporary advocates of positive economics is Milton Friedman, whose *Essays in Positive Economics*¹⁰ must be considered to be the classic statement of the principles of economic positivism. The force and persuasiveness of Friedman's logic has gained almost universal acceptance for positive economics. Now it is high time that we criticize and evaluate positive economics in order to determine the extent of its validity, as well as its weaknesses and limitations. To accomplish a constructive criticism and balanced evaluation of positive economics is the purpose of this critique.

II

The Positive Methodology

POSITIVE ECONOMICS INVOLVES two important aspects. The primary aspect is a denial of normative value. The secondary aspect is an economic epistemology. In his celebrated essay, Professor Friedman passes over the denial of normative value with a brief reference to John Neville Keynes.¹¹ Friedman appears to accept this denial of normative value as either axiomatic (proven beyond all doubt) or dogmatic (so basic that it must be accepted on faith without proof as economic dogma). He concentrates on the epistemological aspect of positive economics.

⁹ *Ibid.*, pp. 32-3.

¹⁰ Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953).

¹¹ Keynes, *op. cit.*, p. 3.

Verification is the central problem in any methodology. Friedman insists that the only proper verification procedure is to compare the predictions which can be made from a hypothesis with subsequent experience, in order to evaluate the reliability of these predictions:

Viewed as a body of substantive hypotheses, the theory is to be judged by its predictive power for the class of phenomena which it is intended to 'explain'. . . . The only relevant test of the *validity* of a hypothesis is comparison of its predictions with experience. The hypothesis is rejected if its predictions are contradicted . . . ; it is accepted if its predictions are not contradicted.¹²

Friedman emphatically denies that the assumptions of a theory should be realistic. He denies that the validity of a theory should be judged according to the degree to which its assumptions conform to observed reality.

With respect to verification, Murray Rothbard has correctly placed positive economics between institutionalism and praxeology.¹³ Institutionalism, viewed as methodology, demands empirical relevance and requires that both the assumptions and conclusions must be realistic. Institutionalists insist upon empirical verification at both ends of the logical process—of both assumptions and conclusions.¹⁴ Praxeology, viewed as methodology, purports to deal with universal and absolute truth and asserts that the only proper verification relates to the soundness of the logic itself—that empirical irrelevance does not invalidate the theory. Praxeologists hold that empirical verification of sound deductive logic is both unnecessary and undesirable.¹⁵ Positive economists insist that empirical verification of conclusions is proper, but that empirical verification at any prior stage in the logic is improper and irrelevant.

Most contemporary economists reject praxeology as an economic methodology because its logical preconceptions are extremely controversial. Praxeology implicitly presupposes that absolute and universal truth exists and that such truth can be ascertained through the praxeological method. In my opinion, this presupposition is false. The fundamental axioms and many of the implicit assumptions of praxeology are such sweeping oversimplifications that they, too, must be considered false. Even if we accept

¹² Friedman, *op. cit.*, pp. 8-9.

¹³ Murray Rothbard, "In Defense of 'Extreme Apriorism,'" *Southern Economic Journal*, Vol. XXIII (January, 1957), pp. 314-20.

¹⁴ Paul T. Homan, "The Institutional School," *Encyclopedia of the Social Sciences* (New York: The Macmillan Company, 1931), Vol. V, pp. 387-92. John R. Commons, *Institutional Economics* (New York: The Macmillan Company, 1934), pp. 1-124.

¹⁵ Ludwig von Mises, *Epistemological Problems of Economics* (Princeton: D. van Nostrand Company, 1960).

the logical validity of the praxeological method, empirical irrelevance renders praxeology useless in solving practical problems of economic policy.

The choice between positive economics and institutionalist economics is more difficult. Logical positivism has long been regarded with favor among many American philosophers. Furthermore, Professor Friedman develops a very strong argument against institutionalism and empiricism. Friedman argues that realistic assumptions destroy the usefulness of a theory by preventing the necessary abstraction and by obscuring the important variable with a mass of realistic but extraneous detail.¹⁶ Friedman makes a very convincing case against institutionalism and for positive economics.

Yet it seems to be necessary to qualify our acceptance of the positive methodology in two important respects. In the first place, the positive methodology can be applied directly only to those theories which draw real conclusions, rather than hypothetical conclusions. Obviously, it is possible to verify predictions empirically only if the predicted changes can be observed and measured. In this respect, it is interesting to note that the positive methodology cannot be applied directly to equilibrium economics, because the equilibrium is a hypothetical condition which cannot be observed or measured in practice. Therefore, if even a modified positive methodology is to be applied indirectly to equilibrium economics, implications must be substituted for conclusions in quest of indirect evidence of the validity of the theory. The implications are really alternative conclusions. Thus, in effect, before the conclusions of equilibrium analysis can be verified according to the positive methodology, the conclusions must be reformulated in real terms, instead of hypothetical terms. But the reformulation leaves the original hypothetical conclusions concerning the equilibrium condition unverified by direct evidence. Furthermore, it will be argued later that the equilibrium concept is a normative concept which has no proper place in positive economics.

In the second place, although positive economics is capable of making reliable predictions, it is completely incapable of explaining why the predictions are fulfilled—incapable of providing a thorough understanding of the cause and effect relationship between the precedent conditions and the predicted event.¹⁷ Prediction involves a correlation between two variables separated by a time lag; but, as every elementary statistics textbook indicates, correlation does not necessarily imply causa-

¹⁶ Friedman, *op. cit.*, pp. 14-5.

¹⁷ See Ernest Nagel, "Assumptions in Economic Theory," *American Economic Review*, Vol. LIII (May, 1963), pp. 218-9.

tion. To cite a frivolous illustration: A popular television comedy¹⁸ featured a newly rich family of mountaineers living in a mansion in Beverly Hills. Since they were completely unfamiliar with doorbells, they did not know that they should respond when the chimes rang. Eventually the callers always concluded that the doorbell was out of order and used the knocker. The mountaineers noted that someone came calling after each ringing of the chimes, so they concluded that the callers heard the chimes and were attracted to the house by the beautiful music of the chimes. The theory that the sounding of the chimes attracts callers is a positive theory, capable of empirical verification, but completely wrong as an explanation of the causes involved because it reverses the true causal sequence. Instead of the chimes causing the callers to come (a verifiable prediction), the coming of the callers causes the chimes to sound. In a similar but more serious sense, positive economic theories are useful only for the purpose of making reliable predictions; they are useless (or, at least, unverified) as an explanation of causal relationships.

The positive methodology can be accepted as valid, subject to two qualifications: the conclusions to be verified must be related to observable concrete phenomena; and the theories cannot be taken as basic explanations of causal relationships, but only as predictions.

III

Positive *vs.* Normative Economics

AS A DENIAL of normative value, positive economics distinguishes between the means and ends of the economic process and denies the economist the privilege of judging economic ends. Positive economists do make value judgments of the economic means of accomplishing given ends. But they insist that the ends must be determined by persons other than economists and through techniques other than economic analysis. Normative economics makes no distinction between economic means and ends and allows the economist to make value judgments of both means and ends through the use of a broad philosophy of economics which underlies the technical economic analysis.¹⁹

The sharp distinction between means and ends required by positive economics, if rigorously enforced, would convert economics into a completely abstract science without practical application, because the distinction between means and ends involves a very high level of abstraction. In the real world means and ends have no separate existence. Every

¹⁸ "The Beverly Hillbillies," CBS-TV.

¹⁹ Keynes, *op. cit.*, pp. 34-5. Lionel Robbins, *op. cit.*, pp. 24-45.

phenomenon is both means and end. It is both the end of precedent events and the means to subsequent events. In reality, there is an endless sequence of cause and effect, in which each cause is also an effect and each effect a cause. Pure means exist only in the logical abstraction of first cause, and pure ends exist only in the logical abstraction of final cause. But both first and final cause are metaphysical abstractions, with very limited application to the real world.²⁰

Another difficulty encountered in positive economics is the impossibility of avoiding implicit value judgments of economic ends, because, as Joan Robinson has indicated,²¹ our very concepts are value-loaded. Competition, for example, implies a norm concerning economic ends. Otherwise it would have no importance in a world dominated by monopolistic giants of industry and labor. Equilibrium, to mention another example, is an abstraction which derives its importance from its implied normative significance. If "equilibrium is just equilibrium," as Lionel Robbins has written,²² why should it be the central element in so much economic analysis? If the competitive model has no normative significance, why not abandon it in favor of a more realistic model? Equilibrium analysis and the use of the competitive model imply that the competitive equilibrium is a good normative value. Any theory that implicitly accepts the competitive equilibrium as a norm or standard is a normative theory, because neither competition nor equilibrium are positive concepts. Both are and always have been saturated with implicit normative value.

Nor are value judgments, themselves undesirable. Indeed, it is only the implicit value judgments underlying positive theories which make these theories important. A purely positive theory, devoid of even implicit normative elements, would be of very limited use as a guide to policy formulation. Actually, with implicit normative elements, most nominally positive theories can be used not only to predict effects from causes, but also to imply the differences between desirable effects and undesirable effects. Thus, for example, employment theory not only describes the causes of full employment, but also implies that full employment is desirable. Growth theory not only describes the causes of growth, but

²⁰ This argument was developed by John Dewey and applied to economics by C. E. Ayres. See John Dewey, *The Quest for Certainty* (New York: Minton, Balch & Co., 1929), and John Dewey and Arthur F. Bentley, *Knowing and the Known* (Boston: The Beacon Press, 1949). See also C. E. Ayres, *The Theory of Economic Progress* (Chapel Hill: University of North Carolina Press, 1944), pp. 205 ff.

²¹ Joan Robinson, *Economic Philosophy* (Chicago: Aldine Publishing Company, 1962), pp. 1-25. See especially p. 14.

²² Robbins, *op. cit.*, p. 143.

also implies that growth is desirable. Price theory not only describes conditions leading to a competitive equilibrium, but also implies that such an equilibrium is desirable. Without the implications which distinguish desirable effects from undesirable effects, positive economic theory would become an inadequate guide to policy formulation and would lose its importance as an applied social science. Pure positive theory would be so limited as to become a useless intellectual exercise without practical significance.

My objection to the implied normative value judgments which underlie positive theory is that they are irresponsible. Since the positive economist does not admit that he implies value judgments, he is not responsible for the value judgments implied by his theory. While value judgments are desirable, their importance demands that the economist must be responsible for his value judgments. In order to establish responsibility, value judgments must be made explicit. To deny the existence of implied value judgments is questionable intellectual honesty. To refuse to state admitted value judgments explicitly is questionable professional responsibility. Both intellectual honesty and professional responsibility demand explicit recognition of the normative preconceptions of every theory.

IV

A Satisfactory if Limited Methodology

THUS, POSITIVE ECONOMIC THEORY can be accepted, with some qualification, as a satisfactory if somewhat limited methodology. But it should be rejected as a statement of purpose for economic analysis because to exclude from economic analysis explicit and implicit value judgments of economic ends would destroy the importance and significance of economic analysis.

Pragmatism is one approach through which it may be possible to overcome the limitations and shortcomings of positivism. Pragmatism is a philosophy which holds that all realities have practical consequences; therefore, all reality can be known through a consideration of practical consequences. The pragmatic verification procedure is less rigid and rigorous than the positivistic procedure. Also, many pragmatists are willing, even eager, to make normative value judgments according to the desirability or undesirability of practical consequences upon the technological or instrumental "life process."²³ For these reasons, the pragmatic epistemology accepted by most institutionalists may prove to be superior to the positivistic-epistemology of the positive economists.

²³ John Dewey, *The Quest for Certainty*; C. E. Ayres, *op. cit.* and *Toward a Reasonable Society* (Austin: University of Texas Press, 1961).

Another approach through which the limitations and shortcomings of positivism may be overcome is Michael Polanyi's theory of personal knowledge. Michael Polanyi, the distinguished scientist who has become an equally distinguished philosopher, holds that there is a vast body of tacit or personal knowledge which we know implicitly, but which we cannot state explicitly. This tacit or personal knowledge is accredited as valid by the responsible personal commitment of the believer. Such personal knowledge cannot be validated by positivistic verification procedures. Yet it is no less valid and it is more fundamentally important than the explicit inferences to which the positivists would limit validity. Furthermore, valid normative judgments can be made upon the basis of personal knowledge.²⁴ The implications of Polanyi's theory of personal knowledge for economic methodology have not been fully developed; but, in my opinion, his epistemology offers the best possibility for correcting the inadequacies of positive economics.

To develop these alternatives to positive economics is beyond the scope of this paper and must await further research into economic epistemology and methodology.

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²⁴ Polanyi has developed his theory of knowledge in many articles and books, but most definitively in Michael Polanyi, *Personal Knowledge* (New York: Harper and Row), 1964.

America's Red Nazis

THE DISSENTER who stands up and rationally debates our course of conduct is the constructive dissenter. The dissenters who sit down in the middle of the street, who attempt to disrupt meetings, who assault police officers in an effort to create riot and disorder are the dissenters who deserve the severest condemnation for they have not only lost faith in our free society but they have adopted the tactics of those whose ways can lead only to tyranny.

Let us return for a moment to the example of Socrates. While history paints him in the role of the gadfly, arousing, persuading, and reproaching those about him, it is oftentimes overlooked that he was, as well, a senator from the tribe of Antiochus, and a veteran of at least the battles of Potidaea, Amphipoles and Delium. The point is that he *participated* as well as *protested*, *suggested* as well as *reproached*. [From an address.]

KENNETH B. KEATING

New York State Court of Appeals

Carey, Classical Rent, and Economic Development

By RODNEY J. MORRISON

I

E. R. KITTRELL HAS DESCRIBED how Edward Wakefield modified Ricardo's theory of differential rent by explicitly including the concept of scarcity. A second point in that article related to Wakefield's use of scarcity rents in the formulation of a colonial development program.¹

Wakefield (and later Torrens), attributing much more importance to scarcity rents than did Ricardo, argued that in a new or developing colony, due to the availability of a large supply of unsettled land, land prices would be low and within easy reach of many of the colony's early settlers.² The availability of this low-priced land would hinder the economic development of the colony by luring emigrants away from the early areas of settlement, thereby precluding an "effective division of labor." To obviate this inefficient dispersion of labor, Wakefield proposed that an artificial price—a sufficient price in the sense that it would be neither too high nor too low—be established on land. Settlers then would not be able to move to the hinterlands so rapidly as to hinder the growth which might be achieved by a more effective division of labor.

In addition to preventing a premature dispersion and an ineffective division of labor, the sufficient price would also cause high rents in those areas which benefited from the concentration of labor and capital. These high rents would then provide a source of government revenues, for Wakefield proposed that they be taxed either to underwrite the colonial venture or to pay for some other government expenditures.³

While Kittrell's article deals with the discussion of rents and colonial development by such classical political economists as Scopes, Wilmot-Horton, Mill, Wakefield, and Torrens, the relationship between rent and economic development was also a matter of concern for one of the earliest indigenous American political economists, the Pennsylvania protectionist, Henry Charles Carey.

Henry Carey (1793–1879) was the leader of what has been called "the

¹ E. R. Kittrell, "Wakefield and Classical Rent," *American Journal of Economics and Sociology*, Vol. 25, No. 2 (April, 1966), pp. 141–52.

² According to Cannan, while Ricardo recognized the existence of scarcity rents, his operational theory of rent was solely differential, because in his eyes (Ricardo's), "practical aims were paramount, and the advancement of the science secondary." E. Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776–1848*, 3rd ed. (1898) (London, 1953), p. 310. Quoted in Kittrell, *op. cit.*, p. 151.

³ Kittrell, *op. cit.*, pp. 145–9.

American School of political economy," a school whose fundamental tenet was that classical political economy as developed in Great Britain was not applicable to the United States because of the vast environmental and geographical differences existing between the two countries.⁴ Carey, the foremost member of this school, devoted his life to two principal goals: the refutation of the teachings of the classical school and the conversion of the official commercial policy of the United States to protection.

Carey hoped to achieve his goals by following a new methodological direction and by developing a political economy different from that of the then accepted classical orthodoxy. Methodologically, Carey contended that the basic flaw of classical political economy was its *a priori* nature in which "Almost all approach the subject with a set of prejudices and instead of patiently collecting facts, and constructing theories therefrom, the theory is first constructed . . . and then as many facts are taken as tend to support it, omitting all notice of those which have a contrary tendency."⁵

Forswearing theories based "exclusively upon reasoning,"⁶ Carey proposed to rectify the situation by using Auguste Comte's "mathematical method" to develop inductive theories which would be operationally meaningful.⁷ Unfortunately, Carey was not searching for simple theories possessing the admirable quality of good predictability but for universal laws; laws that were "exceedingly simple," "universally true," and "universally applicable."⁸ And for Carey, the most important of these "universal laws" was the one invariant standard of value, labor.⁹

⁴ The high opinion which the members of the "American School" had of themselves and the animus which they exhibited for classical political economy is readily seen in the following notice which appeared as an advertisement for a book written by one of the members of that "school."

"This is one of that splendid series on the Political Economy of the American School which has during the past one-quarter of a century emanated from the great teachers—Carey, Colwell, Elder, E. Peshine Smith, William D. Kelley, and made their impression on the people and woven a knowledge of real principles into the very texture of their modes of thought, to such an extent as will cause an earnest and living faith in them to be maintained throughout all time. That this system has *prepared and will ultimately complete the doom* [italized in the original] of the fallacious one of Great Britain, the 'Science based upon assumption,' is as certain as any intellectual event in the future history of mankind." H. C. Baird, Industrial Publisher, 406 Walnut Street, Philadelphia, 1874, in *Money in the United States, Pamphlets, 1861-1874*, II (Madison: University of Wisconsin Press, n.d.).

⁵ H. Carey, *Essay on the Rate of Wages* (Philadelphia: Carey, Lea, and Blanchard, 1835), p. 7.

⁶ H. Carey, *Principles of Political Economy* (3 vols.), Vol. II (Philadelphia: Carey, Lea, and Blanchard, 1838), p. v. (Hereafter, *Principles*.)

⁷ H. Carey, *Principles of Social Science* (3 vols.), Vol. I (Philadelphia: J. B. Lippincott, 1858), pp. 23-30. (Hereafter, *Social Science*.)

⁸ H. Carey, *Principles*, Vol. III, p. 259.

⁹ Carey phrased his value theory in terms of a cost of reproduction, labor theory

II

THE POLICY PROBLEM which concerned Henry Carey was the economic development of the United States. His contention was that if this development was to be achieved, success depended upon increasing profits and capital accumulation. But if the Ricardian theory of differential rent held true, with rents growing at the expense of profits, economic development, in the long run, might prove to be impossible. Thus Carey regarded Ricardo's theory as the key to the classical system and he set out to refute it.

His understanding of that theory was that rent arose from two sources, diminishing returns and "advantages of situation." With respect to the first, Carey thought that differential rent came into existence because of population increases, necessitating the cultivation of land which yields diminishing returns.¹⁰ Putting his theory to the test, Carey stated that if there had been a "deterioration in the condition of the labourer—a diminished facility of obtaining tools or other capital—a decrease in the amount of commodities available," in short, if diminishing returns obtained, then the Ricardian theory must be correct. On the other hand, if conditions had improved, if capital had been accumulated rather readily, and if a greater amount of commodities were available, then we must look elsewhere for an explanation of rent than to the "necessity for applying labour with a constantly diminishing return." Citing conditions in the United States, Carey declared that all the favorable alternatives had in fact occurred.¹¹

The observable fact that living standards had risen in the United States was also reinforced by the pattern of historical settlement. According to Carey, differential rent depended upon the movement, on the extensive margin, from superior to inferior land. He thought, therefore, that if

of value. His operational theory, however, was actually a cost of production, labor theory of value. See Carey, *Principles*, Vol. I, pp. 8-17.

¹⁰ Carey based his attempted refutation to Ricardo upon what occurs along the extensive margin, yet he was acutely aware of favorable developments along the intensive margin. As he stated, "Corn does not rise to the cost of producing it on inferior land, but falls to the cost of obtaining it from the more productive machines daily brought into action." *Principles*, Vol. I, p. 178. This does not constitute a refutation of differential rent, but it does indicate that Carey's optimism with respect to technological change in the United States envisioned the possibility of offsetting diminishing returns. For a discussion of whether he denied the existence of diminishing returns per se, see his *Principles*, Vol. I, p. 213; *Principles*, Vol. III, pp. 8-9; and his *The Past, the Present, and the Future* (Philadelphia: H. C. Baird, 1847), p. 77. (Hereafter, *Past, Present, Future*.)

¹¹ H. Carey, *Principles*, Vol. I, pp. 48, 162-63.

he could disprove Ricardo's ordering of cultivation, the entire theory of differential rents would be shown to be fallacious. And in an inquiry into the order in which land was brought under cultivation in countless examples, Carey observed that historically it was not always the most fertile land which was settled first.¹² He then concluded that, on the basis of the exceptions which he had noted, the Ricardian theory of differential rent was not universal. And if a law is to be true, it must be universal. Ricardo's theory was not universal, *ergo*. . . .

But Carey was aware of the fact that Ricardo had stated that rent also arises because some land possesses "advantages of situation." To Carey this was simply another proof of the invalidity of Ricardo's theory, for according to his (Carey's) "universal" methodology, there could be but one cause of value. To assert that rent is paid, or that land has value, because of the "original and indestructible" powers of the soil and then to assert that rent is paid due to a location factor is blatantly contradictory. According to the principle of contradiction, rent could not arise from both fertility and location. There could be but one cause of value. Thus Carey believed that he had found an inconsistency in Ricardo's logic and therefore had refuted the theory of differential rent.¹³

Having satisfied himself that he had disposed of Ricardo, Carey advanced his own theory of rent which was based upon his "universal" approach.¹⁴ This theory, while simply stated, ultimately caused Carey no end of theoretical grief. Rent was paid simply because labor, the source of all value, had been employed in either the development or improvement of land.¹⁵ But such an assumption immediately gives rise to a serious problem, because the laborer, paid in the past, does not receive the payment which the tenant makes in the present. Nonplused, Carey

¹² *Ibid.*, pp. 38-39; *Past, Present, Future*, pp. 18-24. While Ricardo may have laid himself open to Carey's attack, beyond the ordering of the pattern of historical cultivation, Carey's logic does not refute the Ricardian theory. See A. Marshall, *Principles of Economics*, Vol. I, 3rd ed. (London: Macmillan Co., 1905), pp. 243-44. On this point Mill stated, "As far as words go, Mr. Carey has a good case against some of the highest authorities in political economy, who certainly did enumerate in too universal a manner the law which they laid down, not remarking that it is not true of the first cultivation in a newly settled country." J. S. Mill, *Principles of Political Economy*, People's Edition, W. A. Ashley, ed. (London, New York: Longmans, Green and Co., 1929), p. 112. Carey himself cited Mill as amending the law of diminishing returns in the following fashion: "It is not pretended that the law of diminishing return was operative from the very beginning of society. . . ." This first appeared in Mill's sixth edition (1865) as quoted by Carey in his *Unity of Law* (Philadelphia: H. C. Baird, 1870), p. 21.

¹³ H. Carey, *Principles*, Vol. I, pp. 187-91.

¹⁴ "There being but a single system for the government of all matter, whatever the form it takes." H. Carey, *Social Science*, Vol. III, p. 142.

¹⁵ H. Carey, *Principles*, Vol. I, pp. 48, 106-7, 129-30, 170, 237.

continued to theorize that the present payment which the tenant makes represents interest, the return to capital. And deftly lumping capital and land under one heading (capital), he argued that this return, or interest, was the actual payment of rent.¹⁶

But now the problem became even more involved, for at one time Carey had stated that the "price charged for the use of land . . . is but compensation for the accumulations resulting from labors of the past" and that "the amount received as rent is interest upon the value of labor expended. . . ."¹⁷

It is obvious that in his desire to refute Ricardo and to substitute an alternative theory, Carey committed both an error in theory and an inconsistency in logic. In his attempt to apply an invariant standard to all situations, he had attributed all value to labor. But in positing that rent payments were made to the capitalist, he laid himself open to the charge that either exploitation was involved in the payment of that return or that his theory of value was fallacious.

Carey's solution to the problem was merely to disregard the latter consideration and to concentrate on the question of exploitation. To preserve the integrity of what he called his "harmony of interests," Carey stated that the distribution of national income between the landlord (who was also the capitalist in his system) and the laborer (the tenant) was as follows:

In the early period of society, when land is abundant and people are few in number, labour is unproductive and of the small [total] product, the land-owner or other capitalist takes a large proportion, leaving to the labourer a small one. . . . Population and wealth, however, increasing, and labour becoming more productive, the land-owner's share diminishes in its proportion but increases in its amount. The labourer's share increases not only in its amount, but also in its proportion. . . .¹⁸

Thus rent's relative share decreases but its absolute share increases. On this basis one need not be concerned about it since it does not increase at labor's expense. And economic development can proceed because, although capital's relative share (for rent is also a return to capital)

¹⁶ *Ibid.*, p. 211. Like many members of the nationalist or American school, Carey did not accept the distinction between land and capital as different factors. Accordingly, he (and they) rejected the distinction between interest and rent as returns from different agents. In a nation where land was freely salable and a common object of investment, it is understandable how this thought could gain acceptance. See F. A. Fetter, "The Early History of Political Economy in the United States," *Proceedings of the American Philosophical Society*, Vol. LXXXVII, 1941, pp. 57-8.

¹⁷ H. Carey, *Social Science*, Vol. I., pp. 164-5.

¹⁸ *Ibid.*, p. 34.

decreases, its absolute share continues to increase, which is beneficial for capital accumulation. Thus by avoiding a justification of the return to the landlord, Carey preserved the harmony of his system and defined away the problem by postulating rent as a decreasing share of an increasing total product.

This, however, left the problem of "advantages of situation," Ricardo's answer to the payment of rent when unappropriated land was still available. Since these could not give rise to rent (in Carey's system), he (Carey) had to account for them in some fashion. This he accomplished by defining advantages of situation as being either man-made or natural. The man-made advantages arise from the employment of capital in the building of roads or other transportation facilities or by drainage improvements. The natural advantages come from locating near areas where capital is concentrated. Thus rent is also paid because capital is used to improve land or because some land is near a concentration of capital. In either case, however, the return is due to the use or location of capital.¹⁹

In his discussion of advantages of situation, Carey also introduced the concepts "yield," which he defined as "output per acre," and "exploitability," which he defined as "output per dollar of cost at the least cost point." While Ricardo, for the most part, regarded high fertility and exploitability as synonymous, Carey was of the opinion that they were two separate factors and were not at all times coextensive.

Carey observed that different grades of land would be utilized in the order of their exploitability. In a new country, for example, the most exploitable land may ultimately prove to be less fertile. But because of its lower distance input, it is less costly to bring within the sphere of cultivation. Alternatively, the less accessible but more fertile land is less exploitable due to its higher transportation costs. With improvements in transportation or a rise in the market price of a commodity grown here, the less accessible but more fertile land will rise in the order of rent in comparison with land which is initially more accessible but less fertile.²⁰ Or as Carey stated, inferior lands which are more accessible pay higher rents than the most fertile because of the employment of capital which gives them "advantages of situation." Capital confers or creates these advantages and receives a return for having done so. This may have

¹⁹ H. Carey, *Principles*, Vol. I, pp. 187-91. Carey may have derived this notion from Wakefield's statement that a portion of location rent was due to an "outlay of capital." Kittrell, *op. cit.*, p. 146.

²⁰ This analysis of yield and exploitability is drawn from R. Turvey, "A Finnish Contribution to Rent Theory," *Economic Journal*, Vol. LXV, June, 1955, pp. 347-8.

explained rent for Carey, but he was now guilty of the same error with which he had charged Ricardo. He was inconsistent with respect to his own theory of value.

III

IN HIS THEORY OF RENT Henry Carey satisfied himself that he had attained his first goal, the refutation of classical theory. This he had accomplished by "proving" that rent would not increase at the expense of other factors because, as he had demonstrated, rent's relative share actually declined. It is quite clear, however, that this "proof" omitted any discussion of rates of return, and the return to capital appears to assume three forms at one and the same time—profits, interest, and rent.

Nonetheless, Carey was satisfied and he turned to his second goal: protection as a commercial policy. The keynote here was his explanation of why the United States was not developing. Carey maintained that this situation was due to the fact that the country was essentially a primary producer and a late starter and therefore could not successfully compete with Great Britain. To explain why competition was impossible, he postulated two locational principles, concentration and centralization. Concentration was the development of local and regional centers of manufacturing and agriculture, whereas centralization was a monopoly system dominated by the already developed country, Great Britain.²¹

Carey, like Wakefield before him, held that concentration, which gives rise to local specialization and diversification, was impossible as long as premature dispersion continued.²² But here the similarity between Carey and Wakefield ends. While Wakefield argued that the premature dispersion which precluded economic development could be prevented by regulated land values, Carey—completely opposed to classical rent, and also, with one exception, to government interference—argued that premature dispersion which prevented economic development was not due to low land values (or the abundance of that factor), but was instead due

²¹ H. Carey, *Social Science*, Vol. I, pp. 43–4; *Past, Present, Future*, pp. 289–94; *Unity of Law*, pp. 84–102. This use of the concept of concentration is quite similar to the development pattern described by Wakefield. See Kittrell, *op. cit.*, pp. 147–8. On this score Carey was more of a classicist than he intended.

²² Wakefield contended that even though rents would be high and that they would be taxed (two potential sources of colonial aggravation), there would be no discontent in colonies following his program. Kittrell, *op. cit.*, p. 148. Under agglomeration, the pattern which Carey and Wakefield both proposed, high rents constitute an external diseconomy. While Wakefield planned to tax these rents (which does not eliminate the diseconomy), Carey, through his distribution axiom, was able to lessen (theoretically) the burden of this diseconomy, for as a relative share of national income, these rents declined.

to the fact that the frontier was pushed farther and farther westward in the quest for exports. Since these exports were primary products, Carey also observed that market conditions were such that the American farmer gave more and more primary products for fewer and fewer finished goods. And the more goods that were exported, the lower was the price received. In rudimentary terms Carey contended that there was an inelastic demand for exports and that the terms of trade were moving against the United States.²³ Asserting that no nation completely agricultural would ever be economically or politically independent, he concluded that the United States must develop a manufacturing base. But as long as Great Britain was so far advanced and as long as the operational pattern was centralization with its attendant dispersion and worsening terms of trade, the growth of industry in the United States would be impossible. That is, unless a satisfactory remedy were found.

Unlike Wakefield who proposed higher rents, Carey, expressing a loathing of that "noxious" element of the classical system, argued that protection would be the proper remedy. Given protection, development would proceed along the lines of concentration. Protected industries would hold labor in the developing centers, thereby precluding any early or premature dispersion.²⁴ Moreover, the creation of a domestic market, one of the results of concentration, would also eliminate the necessity of exporting primary products. This argument was also offered as a refutation of Malthus, for, as Carey stated, "it is held by many writers that increase of population is necessarily accompanied by increased difficulty of obtaining the means of subsistence. If the theory be sound, facts must prove it."²⁵ Here was an instance wherein an increase in population either by natural means or from immigration would not only provide additional factors of production but also an expanded market.

IV

HENRY CAREY HAD SET OUT to disprove the classical model of rent theory by using a new methodology and by introducing a new theory superior to that of his adversaries. Unfortunately, his methodology lapsed many times into deductive arguments and his theory was neither

²³ H. Carey, *Past, Present, Future*, pp. 25, 298-300, 460-2; *Social Science*, Vol. I, pp. 412-3; H. Carey, *The Farmer's Question*, Letters to the Hon. Schuyler Colfax (Philadelphia: Collins, n.d.); Letter, Carey to Colfax, January 20, 1865. For a different view regarding the terms of trade during this period, see T. Morgan, "The Long-Run Terms of Trade Between Agriculture and Manufacturing," *Economic Development and Cultural Change*, Vol. VIII, October, 1959, pp. 1-23.

²⁴ H. Carey, *Past, Present, Future*, p. 469, *passim*.

²⁵ H. Carey, *Principles*, Vol. III, p. vi.

superior to nor completely different from that of the English school, *e.g.*, his use of concentration is undoubtedly drawn from Wakefield. Finally, his political economy was theoretically unsound, *viz.*, the confused treatment of interest and rent, and his reliance upon protection as the means to development. But if "Ricardo's vision foresaw British industry supplying the world with manufactures produced under conditions of increasing return, and exchanging these for imported raw materials which otherwise would have been produced at home at increasing costs,"²⁶ Carey's foresaw the role of a primary producer as totally unacceptable for the United States. In his judgment such a position would mean complete economic dependence upon Great Britain, hardly a desirable alternative, given his nationalistic bent.

Thus Henry Carey's observation that the predictions of theories developed abroad did not appear to correspond to the facts of his day and place caused him to reject those theories and to develop his own to explain what was occurring in the United States. All of his inconsistencies notwithstanding, Henry Carey then developed what he considered to be a theoretical exposition of how to avoid increasing rents, falling profits, premature dispersion, and how to achieve economic development and independence.

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²⁶ Kittrell, *op. cit.*, p. 151.

Private Enterprise in the War on Poverty

CURRENT SOCIAL PROBLEMS are serious, deserve the attention of all of us, and require specific corrective programs. The private sector has a major role to play in eradicating poverty and in offering a constructive alternative to federal programs. A positive step would be closer cooperation between labor and business; both would benefit by training and providing jobs for the underprivileged so that they can become employees of the private sector. In the absence of such cooperation and mutual endeavor, government programs can only lead to continued dependence on government. Government training and government jobs perpetuate and intensify a pervasive and disturbing trend. Both labor and management are members of the private sector, and as members, have a mutual and vital interest in maintaining private enterprise as a dynamic and productive force in our society. [From an address.]

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Coordination of Public Economic Policy

SINCE MONETARY POLICY is part of total public economic policy, its broad objectives must be the same as those of public policy generally. These objectives would be regarded in most countries as including high levels of employment and domestic and external monetary stability. Recently great emphasis has also been placed on growth and rising standards of living. The new emphasis on growth has had a useful result in focusing attention on policies which can increase the output of the economy by operating on the "supply" side, for example, policies which aim at increasing the mobility of resources and at improving the level of labor and management skills. As an inheritance from the 1930's, we have continued for too long to think of the maintenance of adequate monetary demand as the hallmark of good economic policy. Enough demand is a necessary but by no means a sufficient condition of satisfactory economic performance. It is an encouraging development of recent years that governments are now prepared to consider very carefully the need for "supply" policies, including trade and tariff policies, because these have a vital part to play in exercising a restraining influence on rising price levels and in improving rates of growth.

By their nature, however, "supply" policies are long range in character and cannot be altered quickly. While it is of the highest importance that they be given adequate weight in the total "mix" of policies, and that they be coordinated with other aspects of public policy, it is in the area of monetary, fiscal, and debt management policies that the problems of coordination arise in their most immediate and continuous form.

It is only realistic for the central banker to recognize that there are a number of factors that inevitably work from time to time against the achievement of the best balance between monetary and fiscal policy. Fiscal policy is on occasion influenced by considerations other than the general economic considerations that apply to monetary policy. Changes in taxes and in government expenditure have very direct and specific impacts on groups within the economy and are therefore subject to many pressures. While there is increasingly wide acceptance of the doctrine that fiscal policy should seek to stimulate the economy (for example, through tax reductions) in periods of underemployment of resources and should help to restrain it (for example, through tax increases) when the economy shows signs of overheating, it appears that the first part of the prescription can be relied on with greater certainty than the second. [From an address.]

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Financing Land Reform

Growth in Agriculture and Industry in Developing Countries

The Role of Balanced Investment in Both Economic Sectors

By EDWARD R. HARRIS, JR.

Introduction

IN THE COLD WAR between free and communist nations the friendship of newly developing countries has become a valuable prize. Motivations for assisting these developing countries and thereby gaining their friendship range from Christian ethics to economic considerations to military defense. Whatever the motive, the premise of stimulating self-help and eventual economic strength in these countries is generally accepted as essential.

For free nations the stimulation toward and promotion of a free enterprise system in these developing countries would serve as a defense against communist infiltration. It would also benefit these developing nations' economies and, thereby, the entire free world. How best to encourage this process is a question for which answers are legion.

In the contemporary world an inherent interdependence exists between agriculture and industry. Less-developed countries are often characterized by the ownership of property in the hands of a privileged few, creating pressure for land reform. The need for growth in both the industrial and agricultural sectors of the economy of these countries will be explored in a series of studies of which this is the first.

The subject will be considered in two primary phases.

1. The existing economic climate and the changes needed in it in order to encourage industrialization, including the formation of a financial institution designed to supply developmental ingredients.
2. The agricultural situation and various aspects of land reform; the importance of careful planning and adequate legislation in carrying out a land reform program, and the costs involved in land redistribution.

I

Transfer of Resources from Agriculture to Industry

A HEALTHY AGRICULTURE and an expanding industry are two dynamic factors necessary to the well-being of a nation and its people. In the early stages of a country's economic growth agriculture is of paramount importance. It contributes most of the developmental capital, in part a crucial

factor for emerging industry. When the industrial economy expands, the value of capital invested in agriculture is usually underestimated by the governments in developing countries. As a result, emphasis on industrialization sometimes exists to the neglect of agriculture. Ultimately major increases in expenditures for research and extension work in agriculture will produce a greater return.¹

Economic growth, as well as the welfare of a population, requires the transition of a country's economic structure from agricultural predominance to a relative decline in that section and a corresponding advance in the industrial sector, achieved by a flow of capital and other resources from one to the other.² While this process is taking place, investment in industry should not necessarily proceed at a greater rate than in agriculture. Some sort of balance is needed between investment in both. If either industry or agriculture is overemphasized there is apt to be waste because some of the goods and services produced will remain unsold.

Industrialization brings about urbanization. Urban populations, usually less bound by tradition, are more prone to innovate. They are receptive to change. If industry is to absorb an increasing number of the labor force, then the output from agriculture must be increased to provide raw materials for the laboring industrial workers.³ And, at the same time, if migration to the cities does not proceed at an adequate pace, fractionalization in the countryside will continue and underemployment of labor will result in continued substandard farm incomes. Witness what has happened in the Callejon, one of the densely populated rural mountain areas of Peru. "The prevailing occupation is a precarious agriculture but its chief export crop is the people who are thrown out of the valley by the centrifugal force of grinding poverty."⁴ The flow of people from the land to the city is a propitious sign when on the one hand it results from technical progress on the farm and on the other from industrial expansion.

II

A Climate Favorable for Economic Development

THE NEED FOR ECONOMIC STIMULI in the world's less-developed countries

¹ Theodore W. Schultz, *The Economic Organization of Agriculture* (New York, 1953), p. 320 (as cited in Raymond E. Crist, "Land for the Fellahin, XIII, Land Tenure and Land Use in the Near East," *American Journal of Economics and Sociology*, Vol. 20 (January, 1961), p. 120).

² B. F. Johnston and J. W. Mellor, "Role of Agriculture in Economic Development," *American Economic Review*, Vol. 51 (September, 1961), p. 590.

³ Dr. Horace Belshaw, "Agricultural Credit in Economically Underdeveloped Countries," Food and Agriculture Organization of the United Nations, Rome, 1959, p. 11.

⁴ Robert W. Hudgens, *New York Times*, January 21, 1962, p. 10-E.

is an accepted axiom. Before recommending any criteria for use toward this end (in this instance involving the transfer of investment from land to business and industry), we must obviously give some attention to the "status quo."

Development Bottlenecks—General. In the emerging nations poverty is widespread. Present levels of economic activity provide little more than bare subsistence for the great mass of people. When an economic advance occurs, it is often absorbed by an exploding population. The ultimate catalyst for development—education—is a scarce and fragile commodity.

Political stability is a condition to which some countries can only aspire. Their governments are characterized by the absence of conscientious and competent public administrations. Occasionally a government philosophy is "control for special privilege." Erratic and far-fetched government policy causes the value of money to fluctuate. Most of the time its value is declining. Taxes—the bulk being of the consumer type—fall mainly on the man who can afford least to pay them. The government's investment in roads, power networks, etc.—infrastructure—and other public works is deficient and retards the necessary movement of people and goods.

In countries where tenancy is the prevailing type of tenure, inadequate and onerous tenant relationships occur. In areas of large estates the heavy concentration of agricultural ownership results in crystallizing the role of the owning and ruling class and in restricting the scope of the activity of the peasant and peon class. The stratification limits employment opportunities and income. Both conditions narrow the market for consumer goods and retard capital accumulation, resulting in a scarcity of productive investment. Many of these countries, especially the Latin American countries, have very vulnerable export economies and, in recent years, the prices received for their exported crops have fallen. Their exporting of agricultural products at bargain prices has had the effect of subsidizing industrial development elsewhere.

Development Bottlenecks—Business. Investment in developing countries is rationally channeled into the more attractive areas of the economy such as real estate, commodity speculation, and foreign trade. Industrial development suffers from many deterrents such as the high degree of risk involved, limited markets, and absence of outside economic influences to keep industrial development in line.⁵ The low rate of return from industrial operations explains the small amount of investment plowed into industry. Even in Puerto Rico, which has had a phenomenal growth since

⁵ N. Rosenberg, "Capital Formation in Underdeveloped Countries," *American Economic Review*, Vol. 50 (September, 1960), p. 712.

the end of World War II, a tendency still remains for investors with local capital to employ it in real estate and more secure commercial operations rather than to venture into more risky manufacturing investments.⁶

Because business is considered a less attractive form of investment, the businessman is not held in the high esteem that he enjoys in more developed countries. Since business is of secondary interest, it attracts people with less abilities. Incipency characterizes the business class.⁷

The businessman in developing countries is not interested in mass production or diversification. His production policy is one of limited output with high costs and high prices. He will have to be convinced of the desirability of changing from this mode of operation.⁸ Tariff protection is used to perpetuate the inefficiency of industry. Generally speaking, the man going into business is already in possession of enough income to satisfy his consumptive desires. Therefore he does not need to earn from his business what a businessman might require in a more developed country.⁹

In Latin America the typical business is a family setup. It is an out-moded system of business organization which is directed by the head of the family and is little receptive to any new ideas. Separation between management and ownership is the exception rather than the rule. In some countries legislation does not exist to provide for the creation of corporations as entities separate from their members.¹⁰

The private businessman has to compete with subsidized government corporations. This subsidization takes many forms such as the ability to borrow at lower rates, the assurance of future foreign exchange allocations, and uncompetitive rental rates. The businessman is hampered greatly by government restrictions and red tape. Sometimes these restrictions are not enforced so that he does not take them too seriously.¹¹ For example, the Latin American businessman is handicapped by a large amount of labor

⁶ Dr. John S. deBeers, *Instruments of the Capital Market in Puerto Rico*, report submitted at fifth meeting of Central Bank Technicians of the American Continent, 1957, p. 11.

⁷ Louis Mark, Jr., "The Favored Status of the State Entrepreneur in Economic Development Programs," *Economic Development and Cultural Change*, Vol. 7 (July, 1959), p. 424.

⁸ William P. Snavelly, "The International Finance Corporation: A New International Investment Agency," *American Journal of Economics and Sociology*, Vol. 17 (July, 1958), p. 351.

⁹ Mark, *op. cit.*, p. 426.

¹⁰ Elba Gomez del Rey de Kybal and Milic Kybal, statements in *Hearings Before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee*, Congress of the United States, 87th Congress, 2d Sess. (May 10 and 11, 1962), (Washington, D.C.: Government Printing Office, 1962), p. 135.

¹¹ Mark, *op. cit.*, 426-27.

and social legislation that is not uniformly enforced. The larger firms have to pay wages that are double or triple those of smaller competitors. This furnishes a productive umbrella to small firms that greatly limits any incentive to grow.¹²

III

Investment, the Heart of Economic Development

TRUE DEVELOPMENT OCCURS ". . . within a framework of law, and a concept of value that states that the benefits of development are real only if they accrue to the individual."¹³ For development to proceed, reforms correcting the bottlenecks of development must be instituted. The ingredients for economic development are many. Among them are: an increase in the labor force, the strengthening of economic incentives, the spread of literacy and technical knowledge, and change in economic institutions for encouraging and organizing investment.

Investment lies at the heart of economic development. Critics of the capitalist system have given investment a bad name. Capital investment should not be so maligned. More than welfare programs and relief programs, capital investment creates a positive social value. Even businessmen in America do not recognize it for what it really is—a powerful social force.¹⁴

The Process of Investment. The process of investment is complicated. It involves saving out of current income and the risking of this saving on some productive effort. To be able to save out of current income implies an income high enough to permit saving and the ability to forego spending the entire amount of the income. In other words, it involves the giving up of some consumption today, for more income and hence more consumption tomorrow. But people and institutions have to be available that have know-how and can take these savings and risk them in expansion and new activities.

Investment is generated when an individual or institution plows back some of its profit into its enterprise. Investment also results when savings are transferred from those who save to those who invest. For this transfer to take place, a series of financial institutions called the capital market must be available to which individuals, firms, or government may resort. A capital market is composed of intermediary institutions such as banks, insurance companies, investment trusts, issue houses, stock exchanges, etc. For the capital market to function there must be savers of all types who

¹² Tom E. Davis, statement in *Hearings, op. cit.*, p. 8.

¹³ Rodman C. Rockefeller, statement, *ibid.*, p. 62.

¹⁴ *Ibid.*, pp. 94-95.

are willing to entrust their savings to others in return for interest or profit. Then it is possible for the potential borrower to obtain the necessary savings at a price.

The creation or improvement of a capital market is a many-sided and difficult undertaking. In addition to the establishment of institutions required to mobilize, transfer, and invest savings, legal codes are necessary to protect and stimulate the investor. Certain safeguards are required, including protective banking regulations, laws permitting the corporate entity and limited liability, and a just legal administration that wins the confidence of all those involved in the capital market.

Investment Capital—Supply. In developing countries medium-term capital is scarce and practically no long-term capital is available for the businessman. Bankers, like the rest of the wealthier classes, are reluctant to finance industry. There is, however, a plentiful supply of short-term capital even for less traditional forms of investment, although on onerous terms. Long-term capital is needed by the government for highways, railways, electric power, irrigation, and other public works. The government is able to acquire these funds by taxation and borrowing. But for the private area little long-term capital is available.

Incentives to save are few. Inflation, political instability, a lack of concrete benefits, and lack of confidence in business management have caused money to flow into such commodities as jewelry, gold, and other durable assets. Much needs to be done to stimulate the desire to save. Countries having inflationary problems would do well to copy the Chilean system for savings called the *cuota de oro*. This system allows savers to maintain the value of their savings deposits.¹⁵ Savings are being mobilized successfully by credit unions, which are doing a good job of encouraging people with low incomes to save. Savings and loans associations are beginning to spring up in certain South American countries. This is the result of the export of our American know-how about savings and loan institutions. Another example of the successful export of an idea is that of the International Basic Economy Corporation, an American concern dedicated to the development of free enterprise in foreign countries. This company has been exporting the American concept of mutual funds to Latin America. By 1962 they had four such funds in operation which were functioning very successfully.¹⁶

The availability of capital is inexplicably large in developing countries. This is indicated in part by the fact that it is impossible to buy shares of

¹⁵ *Ibid.*, p. 150.

¹⁶ *Ibid.*, pp. 65-66.

stock in successful business companies. The Chase International Investment Corporation has found that there is no difficulty in raising local capital for joint venture. The problem more often centers around getting an American partner with know-how in a particular field.¹⁷

Investment Capital—Demand. Productive investment may be held back by a real shortage of long-term finance reflecting shortages in the supply of savings. But the inhibition of productive investment more often reflects investors' lack of grasp for new opportunities, lack of entrepreneurs, lack of technical ability, and the lack of a suitable institutional and legal structure. The fact that there are investment opportunities, despite savings being available, suggests that a meager demand for capital may be as serious a bottleneck as the lack of supply of capital.

A hard-core reality is evident. In free societies private capital must be attracted. Enticing economic conditions stimulate the demand for capital investment, which is reflected in an attractive rate to the investors with safety of principal. When the rate of investment returns is inadequate and capital is not secure, the capital flows elsewhere. It may even leave the country as has happened in Latin America.

In summary, then, developing countries often have several existing bottlenecks of both a general and a business or investment nature. None of them appear insurmountable, however, and primarily demonstrate the need for the strengthening of economic incentives and know-how. The creation of a capital market, increasing both the supply of and demand for investment capital, would greatly implement the achievement of a climate favorable to economic development.¹⁸

Lynchburg, Va.

¹⁷ William F. Butler, statement in *Hearings, op. cit.*, p. 94.

¹⁸ The following book has been drawn upon heavily for the information contained in this article: William Diamond, *Development Banks* (Baltimore, Md.: John Hopkins Press, 1957), pp. 7-17.

The Source of Human Rights

THE MOVEMENT TOWARD ESTABLISHING human rights on a firm foundation is based upon this simple principle: everyone, regardless of race or geographical accident, is entitled to certain opportunities as a human being. Concessions, however liberal they may appear, are not rights. Rights are what man is entitled to, not what society is willing to let him have. They have greater validity than politics or any other invention of society. [From the Royal Bank of Canada *Monthly Letter*.]

Mobilizing Public Opinion Against Inflation

IT SEEMS TO ME that what is needed is not to decide how much inflation can be tolerated but to concentrate on trying to find ways of making the economy work at satisfactory levels without rising price levels. It is clear that we have a lot to learn about living with prosperity without permitting it to degenerate into inflation. But I am not prepared to give up hope. We are not necessarily helpless, because on frequent occasions in the past the economy has thrown up unacceptable rates of price increase when running at low levels of unemployment. Policies aimed at increasing the mobility of our resources and improving labor and management skills can help to achieve stable prices by bringing about increases in productivity. Policies aimed more directly at relating the growth in incomes to increases in productivity and at limiting entrenched positions of market power may also be needed if we are to achieve a satisfactory combination of the goals of high employment and price stability.

I know that this question is a very thorny and difficult one. There is the powerful argument that if monetary and fiscal policies prevent the emergence of excess demand there is no need for any special policy on prices and incomes, and if they do not do so such a policy will break down. There are, moreover, few brilliant successes to which one can point where income policies have worked when put to a rigorous test. But a basic assumption on which monetary policy, as well as fiscal and other policies directed toward affecting the level of aggregate demand, depends is that if total demand is not excessive, competition in the economy will ensure that reasonable price stability is maintained.

If competitive forces cannot be relied upon to ensure that technical progress in production is reflected in the pricing policy of corporations and to keep income demands within reasonable bounds, that is, within the bounds of what the economy can really provide in the form of goods and services at reasonably stable prices, clearly some workable supplementary measures must be found. These supplementary arrangements cannot be a substitute for over-all policies which keep the increase in aggregate monetary demand within the real capacity of the economy to expand. But the experience of many countries suggests that monetary and fiscal policies need to be supported by some technique which mobilizes the force of public opinion behind noninflationary behavior by those who are in a position to deploy strong market power. [From an address.]

LOUIS RASMINSKY

Jewish Agricultural Colonization in Entre Rios, Argentina, I

Some Social and Economic Aspects of a Venture in Resettlement

BY MORTON D. WINSBERG

Introduction

BY THE END of the nineteenth century living conditions for the Jews in East Europe had become intolerable. Jews had settled there in large numbers centuries before, after having been forced from West Europe by increasing anti-Semitism. The East European nobility encouraged their migration eastward, because it saw in the Jews an instrument for keeping the bulk of the population employed as peasants on their large estates. The nobility encouraged the Jews to enter petty commerce, thus endeavoring to restrict them to an intermediary position between the privileged aristocracy and the landless peasantry. When actual encouragement was insufficient to enforce this rigid social and economic stratification, the nobility prevented Jews from owning land, from entering certain professions, such as agriculture, and even from living in certain sections of the nation.

Parallel to the rise in anti-Semitism in the latter half of the nineteenth century, liberal political and economic ideas began to reach East Europe from the rapidly industrializing and more democratic west. The masses clamored for more political and economic freedom while the conservative nobility fought to retain its position. Though unable or unwilling to meet the demands of the people, the nobility was successful in shifting much of the responsibility for the lack of economic progress onto the Jews, who proved ideal scapegoats because they formed such a small minority that they were unable to defend themselves. In addition, since the Jews had been engaged in direct commerce with the peasants for centuries, the peasants found it easier to blame the Jews as the source of their poverty rather than the nobility.

Riots broke out in many East European countries as the masses turned on the Jews in their frustration, sometimes with the encouragements of their governments. Once again the Jews began to search for another haven of protection. Some chose to return to West Europe, where a favorable environment for Jewish settlement had recently been restored. Millions more chose to emigrate to other continents. Most came to the

United States, but considerable numbers settled in such far distant nations as South Africa and Argentina.¹

The first East European Jews to reach Argentina arrived in 1889. In that year 824 came as a group from the town of Kamenets Podolskiy in the Western Ukraine to establish an agricultural colony on land they thought available for sale to them in the center of the province of Santa Fe.² However, soon after their arrival a disagreement developed between the wealthy landowner and the Jewish colonists. This dispute was of such duration that the Jews, who arrived in Argentina with little capital, were reduced to actual starvation. Their plight came to the attention of a passing Swiss Jewish sanitarian who was in Argentina as a technical adviser to the government. He in turn cabled Baron Maurice de Hirsch, a West European Jewish financier and banker, who was perhaps the most important Jewish philanthropist of his day.

Though Baron de Hirsch immediately sent money for the temporary support of the impoverished Jews in Argentina, knowledge of their condition and their aspiration to farm prompted him to conceive one of the most unusual Jewish charitable organizations ever established: the Jewish Colonization Association (JCA). In 1891 de Hirsch invested £2 million sterling into his association, and later increased this amount to £8 million. This investment permitted the association to begin a land purchase program which, though mainly confined to Argentina, also included purchases in Brazil, the United States, and Canada.³ In Argentina alone, between 1891 and 1932, by taking advantage of periods when land prices were depressed, the JCA acquired almost 1,500,000 acres. From this land eleven colonies were eventually formed which at their peak had a total of 33,000 Jewish residents.

The Jewish Colonization Association became de Hirsch's principal charity, though he continued to give massive support to many others before his death in 1896. Through the JCA he felt he could encourage the migration of millions of Jews from East Europe to the Western Hemisphere and resettle them on the land. The idea of establishing a

¹ For a complete account of this migration see: Mark Wischnitzer, *To Dwell in Safety* (Philadelphia: Jewish Publication Society, 1948).

² José Mendelson, "Genesis de la Colonia Judía en la Argentina," in *50 Años de Colonización Judía en la Argentina* (Buenos Aires: DALA, 1939) pp. 85-142.

³ In the United States and Canada the principal charity of Baron de Hirsch was the Baron de Hirsch Fund. The fund was established for basically the same purpose as the Jewish Colonization Association, to resettle East European Jews on farms. Several colonies were established, the largest at Woodbine, New Jersey. Through one of its divisions, the Jewish Agricultural Society, the fund made loans to Jewish farmers throughout the United States and Canada as well as encouraged farm cooperatives. The society's work had considerable impact on Christian rural life movements in both countries.

middle-class Jewish farming population in the Western Hemisphere especially appealed to him, because he believed that only through the primary occupation of agriculture could there be, in his words, "a moral and physical regeneration" of East European Jewry, a group which for centuries had been engaged mainly in secondary and tertiary occupations.⁴

I

Land Acquisition

THE JCA COLONIES were generally established in the less attractive agricultural regions of the country, because most of the best land in Argentina had entered the private domain years before, and either was not for sale or was too expensive. Taking advantage of a brief economic depression in 1890, the JCA began purchasing large tracts of land, in some cases entire ranches, on the outer margin of the fertile humid Pampa. Among its largest purchases were those made in the province of Entre Rios. Here, between 1892 and 1932, were acquired 571,682 acres, or 40 per cent of all the land under its control in Argentina. In a province which is only slightly smaller than the state of South Carolina, its holdings exceeded 3 per cent of the total area of the province.

The initial purchases of the JCA in Entre Rios were the largest it was to make within the province. (See Figure 1.) In 1892 it acquired a number of separate properties between the Gualeguay and Gualeguaychú Rivers totaling approximately 125,000 acres. Using these purchases as a base, the colony of Clara was established in 1892, Lucienville in 1894, and Santa Isabel in 1908. Land continued to be available in Entre Rios at a reasonable price during the early twentieth century. By 1904 the association had added nearly 200,000 more acres to Clara, bringing it to its full size, 253,701 acres. In 1901 roughly 80,000 acres were added to Santa Isabel and over 50,000 acres to Lucienville in 1902, bringing these two colonies to their full size—118,124 acres and 100,399 acres respectively. After it had completed its purchases in eastern Entre Rios the association continued to augment its holdings in the western part of the province. In 1892 it had purchased 22,830 acres near the town of Hasenkamp, from which it established the colony of Oungre in 1925. Between 1930 and 1932 it purchased an additional 34,186 acres east of, but not contiguous to, Oungre. The colony of Cohen, administered jointly with Oungre, was established on this land in 1937. In 1932 the JCA made its last major purchase in Entre Rios, 42,441 acres, just to the

⁴ Baron de Hirsch, "My Views on Philanthropy," *North American Review*, 416 (July, 1891), p. 3.

north of the recently purchased Cohen tract. The colony of Avigdor was formed here in 1936.

The land purchased by the association has at best only marginal value for agriculture. The site of Lucienville is a narrow, moderately eroded interfluvium between the Guauguay and Guauguaychú Rivers. The four noncontiguous tracts which form Santa Isabel have extensive areas of poorly drained land, as does much of the eastern portion of Clara. Both Avigdor and Cohen-Oungre are situated on one of Entre Ríos's *cuchillas*. These low, erosional ridges, not related to the taller, structural ridges of granite with the same name in Uruguay, have hundreds of short streams flowing from their flanks. As a result of the situation of both Avigdor and Cohen-Oungre in relation to a *cuchilla*, their surfaces are broken by many steep-walled streams and arroyos. Clara, more than any of the other four JCA colonies within Entre Ríos, has a topography conducive to agriculture. With the exception of the previously mentioned poorly drained eastern section, the colony at its worst is only gently rolling.

The climate of all the Entre Ríos colonies may be classified as Humid Subtropical. No colony is immune from frost, though it is not of common occurrence since the colonies are situated on the equatorward margin of the climatic zone. Typical January average temperatures are 75°F. to 80°F., while those of July are between 50°F. and 55°F. Precipitation varies from 43" annually in the eastern colonies to 38" in the western. There is no distinct dry season, though there is a summer maximum in precipitation. High summer temperatures stimulate rapid evaporation and reduce the effectiveness of the precipitation. In addition, during the summer much of the precipitation reaches the ground in the form of torrential showers. In those parts of the colonies where tight clay soils are present, the ground is incapable of absorbing the precipitation rapidly. As a result, the water is carried off along the surface, often causing severe erosion. All the colonies suffer periodic droughts, though the problem is far less serious than in farming areas to the west of the Paraná River. Other climatic problems which have caused crop failure or damage within the colonies are early and late frosts, hailstorms, and windstorms.

As in Buenos Aires, prairie soils are found throughout Entre Ríos. However, because of greater precipitation and higher temperatures they are more leached and alluviated, and consequently are considerably lower in natural fertility. When first put to agricultural use Entre Ríos soils normally have sufficient natural fertility to permit profitable crop yields for a number of years, notwithstanding other natural hazards. However, under continuous cropping without fertilization, their fertility

declines sharply. Agricultural experts are in general agreement that most of the soils of the province are best suited for pasture, but economic factors in the JCA colonies usually have dictated crop production instead of livestock. As a result, the fertility of the soils of all the colonies has declined from earlier days, and in some of the more undulating portions of the colonies, especially where the soils are fine in texture, enhancing surface runoff, the natural process of water erosion has been greatly stimulated by poor land management.⁵

The natural vegetation in all the colonies imposed a serious obstacle to their early settlement. All five colonies are situated in a zone of savanna-like natural vegetation, known in Argentina as *monte*. When first settled by the Jewish immigrants the upland portion of the colonies was covered by drought- and heat-resistant grasses low in nutritive value for livestock. Interspersed about the grassy upland were clumps of low, xerophytic trees of little commercial value. Among the more common species were the ñandubay (*Prosopis ñandubay*), the black and white algarrobo (*Prosopis nigra* and *alba*), and the caranday and yatay palms (*Tritbrinax campestris* and *Butia yatay*). In the lower and more poorly drained areas, the ceiba (*Erythrina crista-galli*) and the sauce criollo (*Salix Humboldtiana*) abounded. The extremely hard wood of the ñandubay and the algarrobos so successfully resisted the ax that it cost the association and the colonists considerable effort and expense to clear them from the land, though the softer caranday and yatay palms were quickly removed. Even today the gnarled and quite unattractive ñandubay and black and white algarrobo are plentiful in all the colonies.⁶

II

Population

By 1892, the year in which the first JCA colony was opened for colonization in Entre Rios, the emigration of Jews from East Europe had reached alarming proportions. Driven by increasingly vitriolic outbreaks of anti-Semitism in Russia, thousands of Jews were waiting at border crossings to leave the country or had crowded into West European ports, waiting to go mainly to the United States or Palestine. The majority of these migrants left Russia with little capital, and many were forced to depend on the charity of their more affluent co-religionists once they reached West Europe.

⁵ José F. Felguera, *Geografía de Entre Rios* (Paraná: Consejo General de Educación, 1962), p. 56.

⁶ J. R. Báez, "Reseña sobre las pasturas de Entre Rios," *Revista Argentina Agronomía*, 11 (March, 1944), pp. 129-42.

Cognizant of the physical danger faced by the Jews who lived in Russia, and also of the privation suffered by many in their attempts to migrate, Baron de Hirsch reached an agreement with the Czarist government

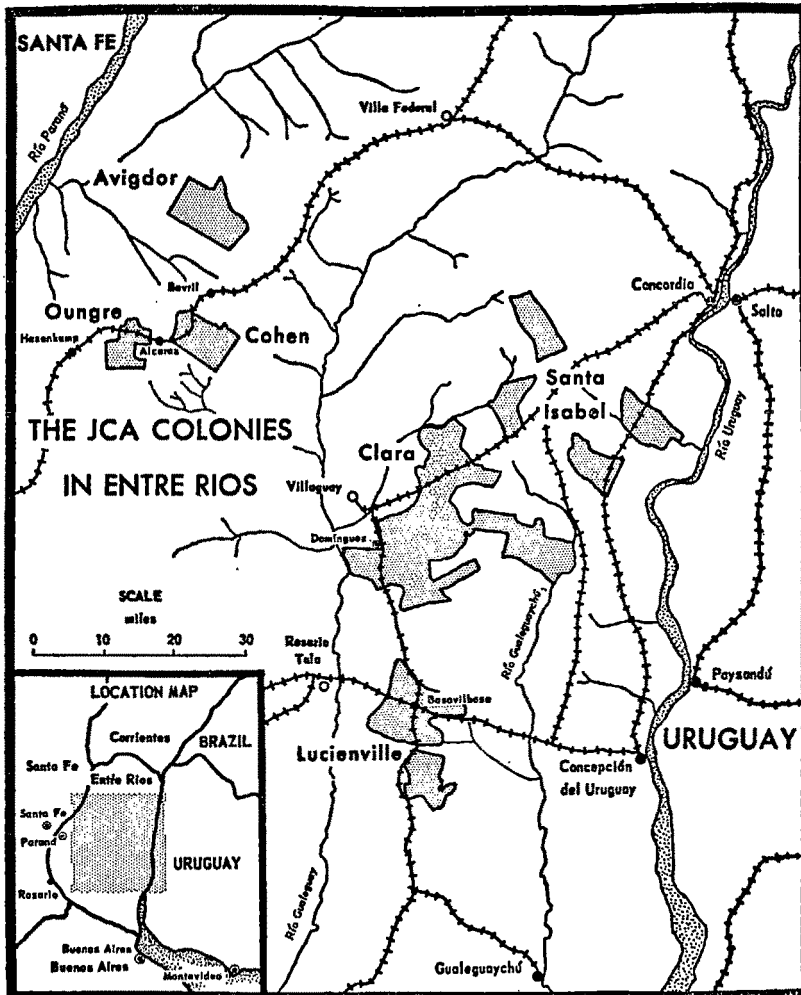


Figure 1. Map of the colonies of the Jewish Colonization Association in Entre Rios, Argentina.

whereby, in exchange for JCA assistance in helping Jews leave the country, the government would issue them passports or exit visas. De Hirsch's plans were enormous in scope, if not entirely practical. He

proposed to remove 25,000 Jews from Russia in 1892, bring them to the Western Hemisphere, and settle them on their own farms, principally in Argentina. The number of Jews he hoped to transport was expected to increase each year until 3,250,000, the majority of Russian Jewry, would have been brought out in twenty-five years.⁷

To transport such great numbers of urban people from one continent to another and install them on the land proved logistically impossible even for so rich and charitable an individual as Baron de Hirsch. In 1891 de Hirsch's agents began recruiting among the refugees waiting in German ports and in Constantinople. Yet instead of the 25,000 that the association originally hoped it would transport to the Western Hemisphere, it succeeded in sending 1,348, all to Argentina. The association never succeeded in sending a larger number of immigrants in any future year.

The first Jews to arrive in Entre Rios were selected mainly from among the 1,348 who arrived in 1891. In 1892, after a wait of several months until the association obtained a clear title to the property, they were installed in Clara, which had been named in honor of the wife of Baron de Hirsch. The original colonists were soon joined by others who chose to leave the group which was still waiting in Santa Fe for the resolution of the dispute over property it had come to Argentina in 1889 to colonize. By the end of 1892 a total of 244 colonists and their families had been settled within the colony, the largest number ever installed in one year in any JCA colony during the association's history.⁸

The Jews who reached Entre Rios to settle in the JCA colonies were not the first large group of foreigners to reach it, nor was agricultural colonization new to the province. Foreigners had been arriving in Entre Rios in large numbers since the 1870's, when immigration to Argentina became important. By 1895 the national census reported 22 per cent of the people living in the province were foreign-born. Though agricultural possibilities were poorer in Entre Rios than in Buenos Aires, they nevertheless could be equaled in few other provinces in the country. In addition, the large landowners of Entre Rios could be induced to sell their land more readily than those in Buenos Aires. Most Buenos Aires landowners recognized the enormous profit potentialities of their fertile estates and were only willing to enter into short-term leases with the im-

⁷ Simon Dubnow, *History of the Jews in Russia and Poland* (Philadelphia: Jewish Publication Society, 1918), Vol. II, p. 419.

⁸ Unless otherwise stated, all yearly population and economic statistics pertaining to the Jewish Colonization Association colonies were taken from the annual reports of the association.

migrants. In the last twenty-five years of the nineteenth century ethnic agricultural colonization grew important to Entre Rios. In 1872 the province reported only three colonies, but by 1895 that number had risen to 201, and the majority of these were inhabited by the foreign-born.⁹

In these early years JCA agents looked about East Europe for groups of Jews with agricultural experience who were willing to emigrate en masse to Argentina to farm. Jews trained in agriculture were a rarity in East Europe, but through another de Hirsch charity, trade schools were created in the region which, among other things, taught agriculture. It was hoped that some of those trained in agriculture in these schools would migrate to Argentina and settle in the colonies. In 1894 the association recruited several small groups of Jewish farmers from villages in Belorussia and Ukraine, transported them to Argentina, and settled them in Clara. In that same year Lucienville was founded. This colony, named after the deceased son of Baron de Hirsch, was originally settled by groups recruited from Poland, Belorussia, and the Ukraine.

Group migration and settlement by the JCA lasted only a short time and, in Entre Rios, was confined to the two oldest colonies, Clara and Lucienville. By 1904 the movement of Jews from East Europe had so intensified, and the fame of the Jewish Colonization Association had spread so far, that the association was finding it difficult to cope with all the immigrants who had come to Argentina at their own expense to settle in the colonies. Though many Jews settled in Argentine cities upon arrival, the JCA colonies were such a powerful attraction that as late as 1923 over 20 per cent of all Jews living in Argentina resided within them.

The movement of immigrants to the Entre Rios colonies was so great that in 1896, four years after the establishment of the first colony, over 4,000 Jews were living in Clara and almost 1,000 in Lucienville. Since the JCA tried to select only the best prospects for colonization, the majority of residents gained a precarious existence doing odd jobs in the villages or working as agricultural laborers for those who had already been granted farms. To those that the association believed had potentialities but who were not assigned farms, a lot of twenty-five acres was granted. Here a person could acquire agricultural experience by raising vegetables or livestock under the direct supervision of the association while he gained the majority of his income working as a laborer for a colonist.

In most years between 1892 and 1914 the colonies grew in population.

⁹ James Scobie, *Revolution on the Pampa* (Austin: University of Texas Press, 1964), p. 46.

(See Figure 2.) Jews were arriving in Argentina in continually greater numbers as economic instability mounted in Europe with the approach of World War I. Not only did Jews continue to pour out of Russia and Poland, but many began to arrive from the Balkan countries, especially Rumania. In 1914 there were 11,761 Jewish inhabitants living in the Entre Rios colonies; 7,699 in Clara, 2,995 in Lucienville, and 1,067 in

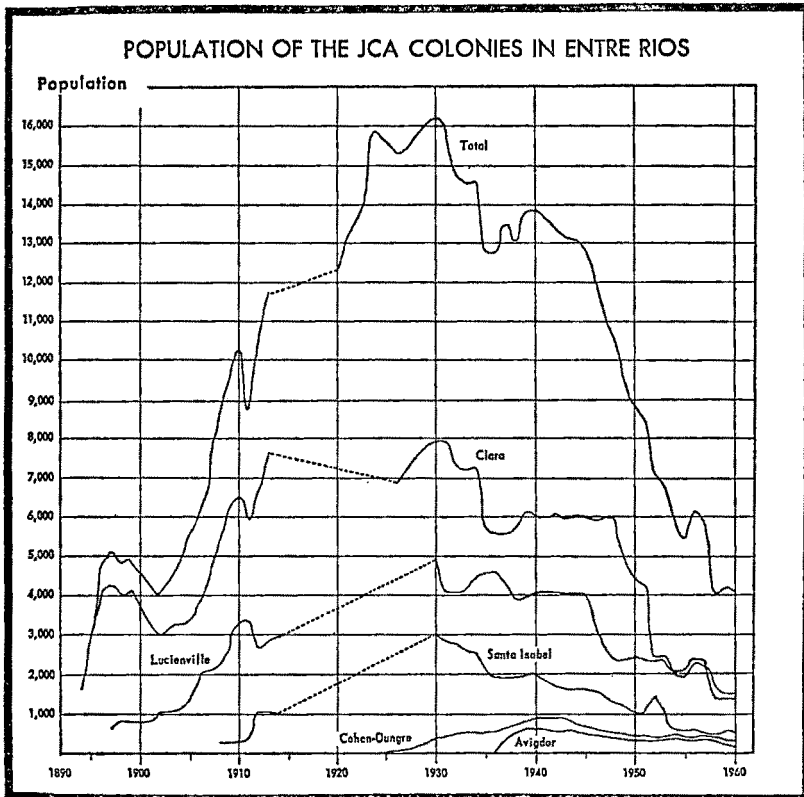


Figure 2. Population of the colonies of the Jewish Colonization Association in Entre Rios, Argentina, 1889-1960.

Santa Isabel. The latter colony was founded in 1908 from four non-contiguous tracts approximately thirty miles southwest of Concordia.

By 1914 the war in Europe had brought immigration to Argentina virtually to a halt. This had an immediate effect on the growth of population in the colonies, and though no figures are available to substantiate it, there must have been years where more people abandoned the colonies

than arrived. During the early period of colonization there always was a large "floating" population within all the colonies. Most of this floating population was formed by people who were hoping eventually to qualify for a grant of land or had come to live there because they felt more comfortable in the homogeneous Jewish environment. Few in this group felt any real permanent attachment to the colony they were living in, and after a few years, if they had not obtained land, they generally left to go to the city.

Immediately after the end of World War I immigration to Argentina, and consequently to the Entre Rios colonies, quickly reached its prewar intensity. Until 1929, in almost every year, the colonies grew in size. Though many people were still leaving them, each year more were arriving from abroad than were abandoning them. After 1923, the year the United States enacted the policy of restrictive immigration quotas, many Jews who originally planned to go to the United States went to Argentina instead. However, by the middle of the 1920's Argentina also had begun to implement a quota system designed to favor the entrance of people destined to work in agriculture rather than urban occupations. Many Jewish immigrants with plans to live in an Argentine city found that the only way they could enter the country was to go first to live in one of the agricultural colonies.

The world depression which began in 1929 brought an end to large-scale Jewish immigration to Argentina. From 1931 the population of the Entre Rios colonies has been in an almost constant decline up to the present day. The trend was briefly arrested between 1936 and 1941, when the JCA settled German Jewish refugees in the two western colonies, Cohen-Oungre and Avigdor. The former colony, named for a director-general (Cohen) and a president (Oungre) of the association, was established in 1925. Avigdor, named after an earlier member of the association's board of directors, was founded in 1936 specifically to accept the German Jews who had begun to arrive.

After the war the survivors of the Nazi extermination of the Jews mainly chose to migrate to Palestine. Those who came to Argentina usually settled in the cities. Cut off from a fresh supply of immigrants, and with a steady emigration of the residents of the colonies to the cities, the five Entre Rios colonies now hold only a small percentage of the people they once held. In 1960 Clara had only 1,590 Jewish residents compared to its peak year, 1920, when it held 8,662. Lucienville held 1,465 compared to a 1931 peak of 4,939. Santa Isabel fell from a 1930 maximum of 3,155 to 582 in 1960. In 1940 Cohen-Oungre reached its greatest population, 968 Jewish inhabitants, whereas by 1960 it had de-

clined to 294. Avigdor reached its maximum Jewish population only four years after it was established, in 1940. At that time it held 660, whereas in 1960 the figure stood at 213. This decline in Jewish population was not restricted to the Entre Rios colonies, but has been a feature of all the association colonies. In 1960 only 3 per cent of the entire Argentine Jewish population was living in the eleven colonies of that nation.

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(Continued)

A New Approach to Urban Renewal

ANYONE VITALLY INTERESTED in urban renewal should also be interested in a *new* approach to that problem, especially when this approach has succeeded in other countries.

Obviously something new is needed. Billions in taxes have been funneled into urban renewal and the problem of urban rehabilitation is as much with us as ever. Magazines are full of articles on urban sprawl, urban blight, slums, zooming local taxes and indebtedness. Why is it that practically no American industry needs governmental help to meet the needs of consumers—except for the gigantic home construction industry? Publicly sponsored urban renewal programs are needed. Yet wouldn't some new thinking about these problems be refreshing?

A proposal, land value taxation, which is supported by many prominent urban renewal experts, is simple enough. It advocates the gradual exemption of improvements from real estate taxation combined with a heavier tax on land.

One may wonder what this can possibly accomplish. It has accomplished a great deal in Australia and New Zealand where this tax has been used extensively. For instance, approximately 60 New Zealand communities have switched from a real estate tax to the land value tax since the end of World War II; according to one observer, the idea is spreading like wild fire. Interestingly, at least 30 per cent of the *property owners* in New Zealand must sign a petition favoring land value taxation and only property owners can vote in the final election. Evidently, there must be some genuine advantages to them in transferring the tax burden from houses and improvements to land values. At present, all improvements are tax free in 85 per cent of the urban areas in New Zealand and in 70 per cent of the rural areas; three-fourths of all the local tax revenue is levied on the land alone. And the trend is continuing.

In Australia, the situation is much the same. Every month brings

fresh news that some new locality is switching to land value taxation despite the requirement in that country that two-thirds of the landowners must approve of the switch. Some suburbs of Melbourne tax land values and others tax land and buildings alike. A survey shows that the taxing land values suburbs have faster growth rates, fewer slums, and less urban blight and sprawl than similar suburbs using the more conventional tax system. Hawaii has had a severe land problem. Its legislature just recently passed a land value tax bill. It is too soon to judge the results there, but in Pittsburgh, land has been taxed more heavily than buildings for decades. This practice has been endorsed by city officials representing both political parties, by the editors of leading newspapers and by numerous civic organizations.

Who are the urban renewal experts who have endorsed land value taxation? *House & Home*, *Nation's Cities*, *American City Magazine* and the *American Journal of Economics & Sociology* have given it editorial support, as has an article in the *Reader's Digest*. The Urban Land Institute has published a study advocating land value taxation. Detailed case studies of Dayton, Ohio, and Bethlehem, Pennsylvania, by professional economists show that these cities would benefit from the introduction of land value taxation (especially by attracting new industry). This quotation from a recent article in *Fortune* sums up the thinking of these and other urban renewal experts:

There is an evident inequity in a system that puts most of the tax burden on property improvements while preserving anachronistic tax incentive to land ownership that encourages an artificial land scarcity—and resultant high prices underlying all buildings.

More and more tax authorities are endorsing this proposed shift of the real estate tax from improvements to land values. The evidence coming in from Australia, New Zealand and elsewhere can no longer be overlooked.

This proposal can help many towns attract new industry. It offers the prospect of living in a better and brighter urban America. The billions now being spent on urban renewal will not succeed in solving the problem unless our municipalities also adopt a tax system that provides an incentive to real estate ownership and construction instead of imposing heavy financial burdens on them.

This reform will provide a constant spur to urban renewal—not merely a one-shot injection—while at the same time, it will provide a municipality with revenue instead of costing it a small fortune.

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STEVEN CORD

The Latin American Way of Life, III

Cultural and Human Values in a Balance Of Self-fulfillment and the Good Life

By RAYMOND E. CRIST

Work with the Hands—White Collarism

IN SPAIN THE NATIONAL IDEAL for centuries was the *Gran Señor*, who, richly attired and with hands unsoiled by work of any kind, rode off across the meseta on his gaily caparisoned steed. Don Quixote on his bony nag was a take-off on the *Gran Señor* as Cervantes saw him. The proud señor or arrogant hidalgo (literally, son of something) was not interested in agriculture, manufacture, or finance; proof of this was given when he banished from the Spanish Empire Jews and Moors, who excelled in those fields. Hence, Spain's New World colonies were developed largely without benefit of the crafts, techniques, and capital which these intelligent, industrious people would have added as a leaven.

Most of the early Spaniards in the New World were not from the upper classes, but their dominion over Negro slaves or Indian serfs made it possible for them to assume upper-class status. Work with the hands was taboo for the Iberians and their cultural heirs, who still want to be considered as in the gentleman class. They are *caballeros*, or horsemen (which means gentlemen in Spanish), and the modern Latin American in all too many cases does not want to come down off his high horse and join in the activities of the workers in the fields and of the petty businessman in the market places. All too many promising young men, with a gentleman complex, swagger around in poorly fitting suits, with a riding quirt in their delicate white hands, and with no higher aim than to achieve a job on the public payroll, no matter how insignificant or how poorly paid. Petty graft is a great temptation. *La Mordida*, or "bite," is a recognized institution. And even if an intention existed originally of doing honest work, it is soon swallowed up in what is aptly called *tinterillismo*, or "ink-bottle-ism"—the hopeless bog of petty officialdom's red tape.

Another much-used word in Latin America is *papeleo*, approximately the equivalent of paper shuffling or red tape. *Papeleo*, endemic all over the area and a great waste of time and money, energy and patience, is a kind of black shadow of the cumbersome administrative machinery of colonial times, darkening the path for many people of high and low degree as they go about their daily affairs.

Witness the involved process for getting a license to drive a car in a

provincial town. First of all, a physical examination is necessary, including a chest X-ray. You have been advised by the traffic chief to patronize a certain local doctor who takes you into a dark room, presses a buzzer of some kind, and tells you, while writing the report, that your lungs are in perfect condition. He favors this regulation, for it enables him to pocket eight pesos—minus perhaps a kickback to the traffic chief—for every driver's license issued.

On the questionnaire to be filled out one is asked if he has false or natural teeth. One must have a bondsman who owns unmortgaged real property in the town itself. One must also get a statement from the chief of police to the effect that one has no criminal record. This document, as well as the copy of the property titles of the bondsman, must be on official paper. Armed with these papers, the applicant appears at the traffic office for his driver's examination, which is presided over by two "specialists"—at five pesos each. After a successful examination, one must buy the book of traffic regulations, six photographs, and the booklet in which one photo is pasted for purposes of identification. A day or so later the actual license is granted.

The work on my license took up many hours over a period of two weeks—if added up, at least three full days. It became a kind of game toward the last, to see what new hurdle would have to be cleared. The total cost was some fifty-five pesos, the equivalent of about thirty dollars. The final fee was five pesos for making an itemized receipt, under the broad heading *arreglo general de documentación* (over-all organization of documents). The civil servant seems to take as motto the old proverb: "*el último mono se ahoga*" (the last monkey gets drowned).

The Conquistadores who came to the New World assumed toward work-with-the-hands the attitude of the upper-class hidalgos, or noblemen, of their day and, by their control of Indian and Negro laborers, were able to establish this attitude all too firmly in their homeland. At the present time hand labor is despised. It is looked upon as something to be indulged in only by those of the lowest class of society. It is not fitting for anyone who considers himself anybody at all to carry home a package from the store, or to tote a basket of vegetables from the market, or a piece of luggage—even a tiny overnight case—from a railroad station to the hotel across the street.

One of my students at the University of Puerto Rico was shocked when she saw me returning from market with two large sacks of produce in my arms and when she later learned that I did my own cooking and house-

work. Of course, there is almost always a horde of small street Arabs, one-armed youngsters, or creatures who walk with a limp hanging around—sometimes literally hanging on to one—begging to do the toting for whatever one is willing to give. For the person having the service done it is a cheap way of conforming to custom, giving alms, and feeling superior, all at the same time—*noblesse oblige*.

Gardening is unpopular among the middle and upper classes as recreation, for it is dirty work and might imply the possibility that one cannot afford to buy the produce. Boys ambitious enough to work their way through college will turn to physical labor only as a last resort. Not only does it hurt their pride, but it pays very poorly. If you want upper-class young men to drive a truck, for instance, you will have to pay them considerably more than they could earn in white-collar jobs and, in the bargain, you will have to hire boys to do the lifting and carrying. Women do not perform the household tasks unless they have to and then do not want it known. Husbands shun household duties such as washing dishes and tending babies, and for them to do the family's marketing would be unthinkable. Yet men are observed to go shopping in some recently introduced self-service food marts in Mexico City, where it has become socially acceptable for them to do so.

Tempo of Living

ONE OF THE FIRST THINGS the visiting American learns in Latin America is the common toast to *salud, pesetas y amor* (health, wealth and love), with the word health being realistically placed first. It may be some little while—or certainly much later in the evening—before he hears the rest of the toast: *y tiempo para gozarlos* (and time to enjoy them)—with the emphasis on the word time. This toast contains one of the basic essentials of the Latin American way of life, for the whole tempo of living there differs fundamentally from our own. There is less living by the clock. Millions of people live out their lives without ever consulting a watch or a clock. Many cannot tell the time of day even if there is a clock in the local church tower. Since so few people are "clock-minded," there is little emphasis on being precisely on the dot for an appointment. Nothing seems to have to be done right now. There is no blind faith in "doing it now."

For many kinds of work there is no specific compulsion as to just where or when it is to be done. If work is slack, or if one is not in the mood for it, then he might as well go to a café where he can meet his friends

and be much more comfortable than in his office. A man does not feel it necessary to make believe he is working when he really is not. He has no pangs of conscience at just frankly loafing and at spending his time as he thinks best. The Latin American will say he is *gozando la vida* (enjoying life) when we might feel that he is merely wasting time. But he does not feel that keeping busy is inherently good or a worthy end in itself. A great deal of work is done in the relaxing atmosphere of sidewalk café. The secretary in an office frequently tells the caller that her employer is in "his" café and obligingly gives the name and location.

I was told by a recent acquaintance in Buenos Aires that I would find him after he left the office the next afternoon—or in case he was not in—at a certain café. When it was explained that I would be out of town for the next several days, he pointed out that I could see him in his café any and every afternoon, since he had patronized that particular café every day since 1929, "except when I am ill." On another occasion when I asked to see a certain individual I was informed that he was not in that day. When I asked on what days I might find him in I was told, "Oh, he comes in every day, but some days he doesn't come." This statement was made with no apparent feeling on the part of my interlocutor that it contained an inherent contradiction.

Another friend, in Colombia, told me that I could see him in his office any morning after ten o'clock, explaining that since he did a lot of his work at night he never got to his office before ten at the earliest. Going across town with this remarkable man from his home to his office was like running a pleasant gauntlet. It might take several hours, depending on the friends he met. Businesses close for about two hours at noon and this makes possible a leisurely lunch—usually at home—which is generally followed by a siesta, or short nap, whenever feasible. What is not done today can be done tomorrow—or the day after. Latin America is often justly referred to as *mañana* land—the land of tomorrow. And why not put it off till tomorrow? In the equable climate of most of Latin America, tomorrow is almost sure to be just like today. So there is no hurry. The proverb, time is money, is unknown. Time is valueless to the Latin American, as it is to the Spaniard and to the Oriental. And this attitude makes for an easygoing tempo of living, not the least of the many charms held out by Latin America.

The Individual and Humanity

THE LATE IRVING BABBITT, in his essay on "Lights and Shades of Spanish Character," observed that "the Spaniard refuses to identify the interests of

his individual self with the interests of humanity. He is filled with that subtle egotism, engendered by medieval religion, which neglected man's relation to nature and his fellows, and fixed his attention solely on the problem of his personal salvation." This attitude has been in large part assumed by the Latin American, who generally lacks the faculty of viewing himself as part of nature, as part of a world-wide web of life. In this respect he is still in the Middle Ages, when he was exalted above all other creatures, and he still refuses to recognize his ties to the rest of nature. There is, for example, a general callousness to the suffering of animals. Draft animals are beaten unmercifully. Many times pack animals are still in use in spite of enormous raw saddle sores and no attempt is made to heal the lesions. There is not enough local feeling on the subject to warrant mentioning it. Any attempt to found a society for the prevention of cruelty to animals would certainly be abortive.

The concept of the brotherhood of man is supplanted by the reality of the brotherhood of men of the same social and economic class. However social mobility is increasing. In some of the Indo-Latin countries the propertied class still looks upon the Indian as being in the same class as the lower animals. Horses and mules are called *bagajes mayores* (large beasts of burden), while donkeys and Indians are referred to as *bagajes menores* (small beasts of burden). Thus the Indian is considered below the horse and the mule and on a level with the donkey. And both Indians and donkeys alike receive brutal words, kicks, and beatings from their masters. I have seen an occasional poster to the effect that *el Indio tambien es humano* (the Indian is also a human being), but the campaign certainly finds little echo among the powerful families.

Fatalism

THE LATIN AMERICAN also has the fatalism of the Oriental in regard to man's place in society. I once talked this over with a secondhand dealer in trinkets and bric-a-brac in the market place of Manizales, Colombia. As we began to get down to cases in discussing the prices of some old copper stirrups, he pointed out that since I had lots of "pesos" I could pay a high price. Then, seeming to contemplate in his mind's eye my vast though unadmitted wealth, he fell into reverie, his eyes half closed, and he began to soliloquize: "He who has a thousand pesos is worth a thousand pesos, he who has ten pesos is worth ten pesos, but he who has no pesos is worth nothing, but *nothing*." He enunciated the last phrase slowly, word by word. And as he repeated the word "nothing" and shrugged his shoulders in a gesture of hopelessness, his meaning was

clear—namely, that a person with no pesos was not only without worth but he never would be able—except through an unexpected stroke of good fortune—to come by the pesos which would give him worth and standing.

Latin Americans have a firm belief in luck. One has either good luck or bad luck, consistently, throughout life—short of a miracle. A man must resign himself to his lot in this world. What will be will be. One must accept the inevitable in true Oriental fashion. For one is subject to ineluctable fate, to the power of ill will. Because of an evil star the individual may be tossed hither and yon throughout his whole life. Reason or cause and effect are of no avail in one's life against an adverse fate. There exists a will for evil, the magic power residing in things. Evil fate may take the form of hail or blight that ruin one's crops, of a humor that undermines one's health, of sickness that carries off one's loved ones, of a *mal* (evil) that kills one's animals. One can only be patient and silent. What can one do? *Nada* (nothing). Anyhow, *la vida es sueño* (life is a dream), and the Latin American's fatalism is well expressed in the oft-repeated formula, *no se puede* (it cannot be done).

The Individual and Nature

IN MANY INSTANCES the Latin American has been unable to work out a harmonious *modus vivendi* with the natural environment. All too often he seems to live at cross-purposes with nature and has little inclination to reclaim land, to reforest cut-over areas, or even to rationalize agricultural techniques. He does not see himself as part of nature, cajoling her into granting him favors, trying to get the most out of her by giving his best to her. This war is visible in the steep mountain slopes, exposed to tropical downpours by the patch agriculturalist and the charcoal burner, and gutted by erosion. Many Latin American small farmers have the Don Juan attitude toward nature—rape her and move on to other conquests. The land is cleared, the trees and brush are burned, and crops are grown for a season or two. But the land is not cultivated with love and care, with a mystic feeling of reverence, by the same family generation after generation. The tillers of the soil are not spiritually linked to the earth—except in the Indian communities—and to the eternal deities that preside over it, as are many peasants in other parts of the world. In general, trees are not looked upon as objects of beauty. They merely represent so much potential charcoal.

Many Latin Americans have an amazing blind spot for the exquisite beauties of the tropical scenes all around them. Natural beauty seems to

be appreciated more by the native Indians than by those who have assumed the imported Spanish attitudes. Poetry is usually written about persons, their hopes and disillusion. Only rarely is it written about the beauties of a tropical and prodigal nature, the lush vegetation, the forest-clad mountains, the magnificent poinsettia shrubs, the glorious jacaranda and flamboyant trees, and the waving cane fields with their palm tree borders. Very few people ever undertake to picnic informally in the woods or along some creek, or to hike a few miles for pleasure, or to commune with nature in her many manifestations. This is not an irrational attitude when one thinks of the mosquitoes, gnats, biting flies and stinging ants to be found on even a short excursion. And the old swimming hole is apt to be contaminated with the larvae of hookworm and liver flukes. The vivid picture of a nature irreconcilably hostile to man is presented in *La Voragine* (The Vortex), the outstanding novel by José Eustacio Rivera.

The Iberians came from a land where man is the measure of all things, but they found in the New World a nature which overwhelmed them in its rank lushness. They came from a country where man is everything, but in the New World tropics, man was almost nothing. Nature was everything. It was a terrifying fact. The conquerors were warriors and adventurers. They were not peasants interested in farming. They did not come to conquer nature as the gardeners of the Mediterranean had done. They came for gold and glory.

It can be truly said of most of Latin America that the Europeans who settled it were people who did not like to farm. The newcomers, at first awed by the natural environment, had a hard struggle to find means of imposing their will on it. But the owning of land was not as important as the control of people who would give it value. The Conquistadores did not want to farm. Nevertheless those Spaniards who did not find gold were forced to, and they soon controlled Indian serfs or Negro slaves whom they forced to work for them and whose souls they could bring to the Church. In the process they made use of a device which has come to dwarf man almost as much as the natural landscape, the plantation. A saving feature of the British colonial plantations in the West Indies was the law that made it mandatory for planters to grow an acre of ground provisions for every ten slaves they owned. This law regrettably applied only in the British Colonial possessions and even there became a dead letter with the abolition of slavery. Perhaps many of the economic, social, and even political ills of the famed one-crop "sugar islands" would have been avoided if, right down to the present, one acre

of provisions for local consumption had been grown for every ten employees of the sugar companies. But it was not to be.

Thus the plantation system, created by man for subduing the physical environment and producing a crop valuable in the economy of the mother country, has become almost an end in itself. What was created to be a servant of a few men has evolved into an institution which dictates living conditions for millions of men, who are in most cases far removed—geographically and in social background—from the public they produce for. The system is not cut to the measure of man.

The Impact of Industrialism

BOTH THE PHYSICAL GEOGRAPHY of Latin America and the Latin American way of life have been resistant to large-scale introduction of modern industrialism and the social features that accompany it. The area does not have the huge deposits of coking coal which the development of heavy industry calls for. And only in a few sectors is it possible to produce foodstuffs on a scale comparable to that in the middle and high latitudes of North America and Eurasia. Of course, many features of the modern, streamlined way of life are present: Tropical landscapes are dotted with oil derricks and drilling rigs, parts of which are flown in by plane and helicopter. Jet planes regularly fly over the wonder cities of the Incas, the Aztecs, and the Mayas with the ruins of their magnificent temples and thick-walled fortresses. Automobiles and buses roar over the Andean Mountain chains, across the deserts of Chile, Peru, and Mexico, and through tropical rain forest for hundreds of miles. But although some of the great capital cities are modernized, such as Havana, Mexico City and Rio de Janeiro, Lima, Bogota and Buenos Aires—to name a few outstanding ones—their inhabitants are still far from being prey to gadgets and mechanical equipment to the same extent as city dwellers in industrialized countries. Peddlers with donkeys or pushcarts, laden with farm produce, charcoal, or merchandise, still cry their wares in the streets. Ready-made furniture and clothing are uncommon. Tailors, weavers, carpenters, cabinetmakers, tinworkers, and silversmiths are still significant factors in the economy. The chain store is just appearing. The small shopkeeper still handles most of the retail trade. In other words, the individual has not been completely engulfed in a tidal wave of mass production, mass advertising, and mass consumption of standardized products.

For more than three hundred years Latin America was a colonial dependency of the Iberian Peninsula and during that epoch the mercantilist

policy was in full sway. Colonies existed only to be exploited by the homeland. Being the exclusive property of the mother country, they were not to be a source of profit for foreigners, who must under no circumstances be allowed to furnish even such goods as the Peninsula could not or would not supply, or take away the surplus colonial products for which there was no market in the mother country. Further, the whole colonial structure was oriented toward obtaining as much gold, silver, and precious stones as possible. They were considered much more important than crops.

The mercantilist state of mind and its attendant arteriosclerotic state of economic affairs were not materially altered when the colonial Creole elite was able to oust the Iberians and step into their shoes. The new, so-called "republican," governments did not have a broad economic base and the provincially minded leaders who came to power without benefit of elections spent their energies in feuding among themselves, rather than in trying to improve the living conditions of the underprivileged. The growing industrial nations fished in the troubled waters of the civil wars, the revolutions, and the general political and economic chaos which reigned in Latin America during the nineteenth century. Powerful individuals and international corporations gave huge sums of money for oil, business, and mining concessions to military dictators and other national strong men, who were thereby better enabled to prevent political, economic, and social change and to maintain themselves in power. The result was that it was an easy step from the political colonialism which existed under the Spaniards and the Portuguese to the economic colonialism of the republican era.

Small wonder that a kind of colonial psychosis developed, a resignation to the status quo, persisting doggedly down to World War I, when it received its first disruptive blows. The Latin nations were cut off from the regular markets for their agricultural produce and at the same time they were unable to buy the manufactured goods which they had customarily imported. Further, the spirit of nationalism was rampant all over the world and peoples everywhere fell under the spell of the idealism of Woodrow Wilson and the magic word "self-determination." That watchword, for those already politically independent of a mother country, was interpreted to mean economic self-determination.

Between the two world wars light industries were established in many Latin American republics and soon were thriving behind high tariff walls. During and after World War II progress continued in light industry and heavy industry was introduced as well.

The outcome of the introduction of industrialism into Latin America has been an improvement in the health and security of a small sector of the population, in limited areas, without providing correlative nationwide increases in economic opportunities. Most colonial governments have given glib lip service to the goal of industrialization, land reform, and the creation of a credit system that reaches the artisan and the small farmer. But it has been the independent, self-governing States which in most cases have actually waged vigorous campaigns to attain them. Industrialism is helping to make countries independent just at a time when the interdependence of nations is certainly of equal importance.

Even in areas as yet almost untouched by the beneficial aspects of industrialism, some of the ugliest corollaries of the system can be found. To these Latin Americans are by no means allergic. In regions where living levels are very low, where few people get enough of the right kinds of food, the urban and even the rural landscape will be plastered with signs recommending the use of certain liver pills. More attention is paid to faulty elimination than to faulty or inadequate intake. Where the prevailing diet leans heavily on starchy foods and on little or no roughage, small brown bottles—with pictorial labels, designed to attract an illiterate clientele—sell for fantastic prices although they may contain a preparation of Epsom salts or mineral oil worth at most a few cents. Patent medicine manufacturers have a field day.

Overstuffed, Grand Rapids-style furniture is imported for use in sweltering, tropical countries where native bamboo would more adequately serve. Apparently there is more tone, more prestige, to owning and using foreign-made equipment, often poorly adapted to the climate. Stuffy, uncomfortable beds, hard to keep clean, have replaced the light airy hammock in all too many areas.

Coca-Cola signs, large and small, are found in appalling profusion in all countries which have not actually enacted legislation against the introduction of the product. A slang term has come into vogue with reference to the spread of the Coca-Cola habit into the most out-of-the-way places, namely, "cocacolonización." Garish, neon-lighted billboards are to be seen in increasing numbers in many large towns. Latin America can perhaps be said to have been infiltrated by some of the least pleasing aspects of "modernity" and "progress."

Pressure for Social Change

ONLY SMALL SEGMENTS of the population have reaped the bonanza material rewards attendant upon the introduction of industrialism. The wall

enclosing the compound around the palatial home of the millionaire landowner or mining magnate may be used to support the lean-to's of semi-starving Indians. A few powerful families in each country, dressed in the latest New York or Paris creations, drive in their powerful motorcars past barefooted Indians who act as pack animals for their handmade goods. The literate, highly cultured few have enormous private libraries. The many are for the most part illiterate and so backward as to be unaware of their condition. Behind the glamorous capital cities, with their façade of artificial gaiety and glitter in theatre and in night club, is the vast hinterland, dotted with drab villages and the poverty-stricken huts of rural dwellers. Here social life even in embryonic form is practically impossible. However, a slight increase in general well-being has been effected. And at the same time the leaven of new ideas is at work in the growing middle class and among the third estate. Writers have abandoned their ivory tower to observe what goes on in the market place. Romulo Gallego's *La Trepadora* (The Climber) and *Doña Barbara* are brilliant analyses of social conditions. The same can be said for Ciro Alegria's *Broad and Alien Is the World*, Jorge Amado's *The Violent Land*, and Mariano Azuela's *The Underdogs*.

The post-colonial social environment, as it becomes modified by dynamic industrialism, cannot help altering the formerly more or less static Latin American way of life. The Latin American world has been subjected to the high pressure of modern, streamlined Western civilization and its power-driven machine culture. The Caribbean world has felt this pressure for a century as has western South America, especially since the opening of the Panama Canal. The entire cultural area has been profoundly affected by the influence of the Air Age. And the pressure on Latin America will be intensified as the industrialized world expands and finds petroleum, minerals, and vegetable oils more and more essential to its continued existence. The great industrial powers have reached out for the reserves of oil that lay in Mexico and that still lie in Venezuela, Colombia, Peru, and the Chaco. They have sought out the tin of Bolivia, the copper of Chile and Peru, the nitrates of Chile, and the enormous iron-ore deposits of Brazil and Venezuela. All Latin America has read the handwriting on the wall. Great changes in the social and economic structure are inevitable. Hence, the laws of the various republics which have been enacted to regulate the activities of the foreign companies, although designed to increase national participation in profits, should also be regarded as conscious attempts to soften the impact of modern industrialism upon the Latin American way of life. The attitude

toward the foreign corporation might be succinctly summed up in the old mule skinner's adage: "If they don't kick you when they enter the stable, they will when they leave."

Latin America shows many evidences of a desire to improve present conditions. And hope in a more rosy future is also present. Many dilapidated mud hovels, either isolated in the forest or grouped in small clusters along a river or trail, will be named *El Porvenir* (The Future) or *La Esperanza* (Hope). But the vision to make these vague hopes materialize is lacking. The economic status of a large percentage of the population of the various republics has not been greatly altered since colonial times. The past is a reality which casts a heavy shadow on all blueprints of the future. The man who paints in crude letters the words "Future" or "Hope" on his house has, in most cases, no higher living levels in mind than those at which he and his neighbors are actually living. His standard of living is no higher than his actual level of living. So it is too much to expect him to have a concrete goal toward which to work intelligently. In his dreams his wagon may be hitched to a star, but he hasn't the faintest notion of how to start on his way there. In many cases neither do his leaders. The Latin American republics have millions of people at this stage of development.

However, complete economic independence would seem to require that Latin America accept a relatively low level of living. Perhaps few of the 200 million Latin Americans, with their fertile plains and productive mountain slopes, and the resources of their forests, mines, seas, and rivers, would ever die directly of starvation, which is saying a lot in the uncertain world in which we live today. But if a majority of the inhabitants of each country wish to live above the adobe-hut stage or even above the scale of the small peasant proprietor, it would seem that a *modus vivendi* with international trade, precarious though its structure be, would have to be worked out. A State may be sovereign within its own borders yet have to recognize the validity of economic forces on the rough seas of the international market. Economic independence is not always a corollary of political independence in this modern, interdependent world.

There is no doubt about it, the impact of the United States upon Latin America has been powerful and pervasive. The lives of millions of people to the south of us have been affected not merely by the external material forces emanating from our country; they have also been affected by subtle cultural drives which have changed their inmost beliefs, their feelings, and their outlook.

But a counterwave of influence can be expected in the future from

Indo-Latin America. Mexico, for instance, after centuries of being passively acted upon, has begun to act in her own right. The revolution through which that country has been passing since 1910 may be interpreted as a kind of coming-of-age of the great Indian and Mestizo society. The Mexicans have become articulate through Rivera, Orozco, and Siquieros, through those who formulated the land law of 1917, and through her scholars and diplomats. What has happened in Mexico in the past forty years could at some future time happen in Colombia, in Brazil, in Guatemala, and in the Andean States of Ecuador, Peru, and Bolivia.

Conclusion

GEOGRAPHICALLY, CLIMATICALLY, geologically, culturally, and ethnically Latin America is a region of striking contrasts. There are almost uninhabited jungles in the Amazon Basin. Formidable, not to say forbidding, mountain ranges extend from Mexico to Patagonia. There are vast stretches of bone-dry desert and of fertile, well-watered coastal plains, pampas, and mountain valleys. Fabulously rich reserves of petroleum, iron ore, copper, silver, and other minerals abound in the area. Some populations are of predominantly Indian origin. Others are of predominantly European origin. And so on. Yet there is unity in this diversity, for Latin American culture is a cohesive cement of the highest order.

Latin American civilization is an ancient one, made up of the superimpositions of cultural strata, comparable in some respects to the successive layers of sedimentary rocks in a geological cross section. The ruins of Tiahuanaco, Sacsahuaman, and Machu Picchu, of Monte Alban, Chichen Itza, and Coban, are silent but awe-inspiring memorials to the advanced cultures and golden ages of the several autochthonous peoples of the New World. Upon these foundations the Iberians built their own civilization, with its dwellings, its cities, its monuments, its churches and cathedrals. At the same time they mingled their blood and culture with those of the indigenous peoples. They also imported from Africa millions of Negro slaves, who brought with them valuable cultural assets and whose physical strength has created a large part of the fabulous wealth of the Antillean sugar islands, of the Caribbean borderlands, of the Amazon Basin, and of coastal Brazil. The fusion of the Iberian, Indian, and Negro cultures, both material and non-material, has produced a Latin American atmosphere, a Latin American culture.

There is no mistaking when one has arrived at the frontier of the Latin American cultural area. When one travels from Northwestern

Europe to the Mediterranean lands and from Anglo-Saxon America to Latin America the impression is much the same. The elements of material culture are markedly different—dwellings, modes of dress, transportation units, cities, public buildings, and so on—but many attributes of the Latin American cultural scheme, although *sensed*, are difficult to define. There is one all-pervading religious institution which embraces high and low in its spiritual fold. There are no sects or schisms. Public and private morality varies little from one end to the other of the whole area. And there is a distinct concept of the tempo of life and the use of leisure. The whole philosophy of living, as regards family, laws, mores, folkways, personal dignity, and similar notions, differs, as has been seen, from that in Anglo-Saxon America. There even seems to be an intangible aura, a distinct flavor, to living in Latin America, a certain quality of light and color in the atmosphere, and all these factors, tangible and intangible, add up to a special civilization with its own forceful personality. Latin Americans think of themselves as Brazilians, Colombians, Mexicans, and so on, never as Latin Americans. But the Latin American nations are tied to each other by history and culture more than they are separated by physical geography. What makes for unity in the vast mosaic of Latin American States, with their race mixture and great diversity in climates and physical geography, is the Latin American culture with its cohesive force of well-defined values. The conclusion that there is a Latin American way of life seems inescapable.

For a time the hegemony of the Western World was held by the Mediterranean peoples. In the sixteenth century it looked as if the whole world was to be dominated by the governments with seats in Lisbon and Madrid. But the economic and military center of gravity gradually shifted from the Mediterranean to northwestern Europe and the eastern United States. There is no longer much rivalry between the peoples of the Mediterranean and the nations of northwestern Europe and their cultural heirs in the New World. The great rivalry in the world today seems to be between the Anglo-Saxons and the Slavs and Chinese. The Soviet Union lies athwart Eurasia, in contact with both Occidental and Oriental peoples, and absorbs many influences from both worlds. What the future evolution of the Soviet Union will be is of course unpredictable, but it seems that development there will continue to have little in common with that of the New World. Perhaps it is too early to predict how the relationships of the Chinese with the rest of the world will evolve. In any event, Latins can be expected to work out their own salvation without pressure from outside. Already Mexico seems to have achieved political

equilibrium, as one of the results of its half-century of profound social revolution. It has continued to be very influential in the rest of Latin America, particularly in Indo-Latin America.

In trying to foresee trends in our own future, we should never lose sight of the fact that Anglo-Saxon and Latin currents unite to give deep cultural content to the society in which we live. For a considerable time the official language in England was French, the tongue of the Norman conquerors. Some of the most agreeable features of our civilization stem from the Latin side of the house, without which our society would be markedly different from what it is today. This cooperation in the past would seem to make cooperation in the future all the easier and more desirable.

The Latin Americans have evolved a way of life which differs from ours in many respects, but which has many satisfactions. In the contemplation of it we in the United States could do well to reexamine some of our own axioms and assumptions. This way of life stands on its own merits. It does not proselytize by propaganda, nor does it seek to impose itself by force upon peoples in other parts of the world. Yet it has shown a remarkable capacity for survival. It has great respect for the individual especially, also for the family. It has a very human view of achievement and self-fulfillment and the good life. It has a live-and-let-live attitude toward other individuals and societies—a point of view most refreshing in this modern world. In short, it is a balanced way of life.

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Negro Life and History

THE 53RD ANNUAL MEETING of the Association for the Study of Negro Life and History will be held on October 3-6, 1968 at the New York Hilton Hotel. Persons interested in proposing sessions or papers, or other participation, should write the program chairman, Walter Fisher, of the Department of History, Morgan State College, Baltimore, Maryland 21212. [From Professor Fisher.]

Democracy and Rights

THERE IS NO RECORD in history of a government not democratically organized and controlled which has respected men's rights. Democracy has produced a synthesis of natural law and freedom, and is in process of showing its capacity to cope with changing conditions.

The principles observed in democracy comprise, in broad terms, the ideals of the good life. They are listed in *Civics and Citizenship*:

All human beings have absolute worth regardless of race, religion, or material possessions;

Reason and conscience are essential guides to human behaviour;

Human beings possess fundamental equalities which must be respected;

Freedom, limited only by moral responsibility and social justice, must be forthcoming to all human beings.

There are problems associated with human rights, but the nature of democracy enables it to manage complexity. Its citizens need the inner gristle, and the education, habits and courage, that make democracy work. Its patriotism expresses itself as a share in the collective life of the nation.

The key to effective working of democracy is its deep respect for human personality, extended impartially to every member of society. It draws much of its strength from religions which affirm the sanctity of the individual and the brotherhood of man. It lives in the hearts of men and women, and if it dies there then no constitution, no law, no bill, can save it. [From the Royal Bank of Canada *Monthly Letter*.]

Democracy Thrives on Dissent

THE BEAUTY of a constitutional democracy is that it works. It is the only form of government that is able to blend a divergence of opinions into a workable system. As such, not only does it *tolerate* dissent, it actually *thrives* on it.

Conversely, a dissident group must recognize that it too must exist within the framework of our system and be willing, to some degree, to negotiate and to accommodate. Most importantly, it must not use the tactics which have become identified with those political groups who seek to impose their views upon the majority without regard to the democratic process and the rights of others. [From an address.]

KENNETH B. KEATING

New York State Court of Appeals

The Land Question in History

By REGINALD EDWARD MORRIS

I

Land Problems Since Ancient Times*

"GREAT ESTATES RUINED ITALY and the provinces," said Pliny (the Younger).¹ Certainly it was one of the factors usually mentioned by historians.² The *latifundia* of the Roman Empire cultivated by slaves and *coloni* destroyed the vigor and self-reliance of the population long before the inundation of the Germanic tribes in the fifth and sixth centuries. Political disintegration and corruption proceeded apace with economic inequality and military despotism. Privileged nobility and bureaucratic controls replaced self-government of the municipalities, the power of the middle class and private enterprise. The real power of the government gradually passed into the hands of the great landlords during the fourth and fifth centuries. A large bulk of the formerly proud self-reliant citizenry became subservient, marginal tenant farmers in a feudalistic society supporting a dole of *panem et circenses* ("bread and circuses") for the unemployed masses.

History records many similar land problems both before and after the collapse of Rome. The details are different, but the pattern and effects are similar. The class structure and skewed distribution of wealth based on concentrated land ownership are believed to have been among the major causes of the fall of the Old Kingdom of Ancient Egypt. As in Rome, they undermined the strength of the Middle Kingdom to resist the invasions which brought it to an end in the sixteenth century B.C.³ Egypt once more rose briefly to prominence as a military State, but economic problems again weakened it internally for a succession of conquests which marked its later history.

* In recalling some of the highlights of history in which land problems figured significantly I intend to make no general "interpretation" of history. Nor do I intend to attempt to evaluate the relative impact of the land problem among all other causal forces involved in the events described. For this would require a different type of analysis than the historical. My object is merely to illustrate that the land problem was involved—and that it was very important.

¹ *Verumque confitentibus latifundia perdidere Italiam; jam vero et provincias.* Caius Plinius Caecilius Secundus, *Natural History* XVIII, 7, as quoted in G. R. Geiger, *The Theory of the Land Question* (New York: The Macmillan Co., 1936), pp. 143-44.

² Carlton J. H. Hayes et al., *History of Europe* (New York: The Macmillan Co., 1949), pp. 66-95.

³ Rushton Couborn (ed.), *Feudalism in History* (Princeton: Princeton University Press, 1956), pp. 124, 128.

The Iberian Peninsula shared the culture and traditions of the Roman Empire of which it was a part. It also shared the social and economic problems attending land monopoly which have persisted to this day. The revitalization of Moorish rule for eight hundred years, the rise of town life and commerce in the Middle Ages, the influx of wealth from New World possessions, all helped to stay the ultimate effects of the land problem. Spain did not appreciably participate in the Industrial Revolution, which would have given her another respite. The land problem and ruinous wars have been central to her decline ever since. The republic which was formed after the fall of the monarchy failed to break the strangle hold of the great landowners and power groups allied with them and was defeated in civil war by 1939. The dictatorship which came to power after that war has carried on since in many of the same traditions of the old monarchy, with many of the same problems and social discontents.

Latin America inherited the culture of Spain and Portugal from her colonial days and has been burdened with similar social and economic problems, including the major source problem of concentrated private land ownership.

Land concentration in England, primarily achieved by enclosure acts, began in the sixteenth century. Common land became private land and wholesale evictions produced great unemployment while the wealth of the landed aristocracy increased. Through its effective control of the government after the restoration of Charles II, the landed aristocracy as Peers of the House of Lords shifted the old feudal dues, payable by them to the crown for holding land, to a sales tax on common beverages payable by everyone!

More common land was monopolized by the lords with their passage of the four thousand enclosure acts of the eighteenth century. High rents, progressive impoverishment of the rural population, and the creation of a proletariat were among the results.⁴ Subsistence relief laws, factory employment created by the Industrial Revolution, and emigration gradually mitigated the more prominent social problems. But the British land policy, in the words of Winston Churchill, remains "vicious and unreformed." The land policies of the United States and Canada—influenced as they were primarily by British traditions—are, except for a few areas, little different from Britain's. The land problem in these two countries, however, has not yet become recognized as acute generally, except in dense

⁴ An excellent account of this phase of British history may be found in Gilbert Slater's *The Land: The Report of the Land Enquiry Committee* (London: Hodder and Stoughton, 1913).

urban areas, because of their large land areas in relation to their populations.

These examples of countries with land problems, countries which provide the landlord with what John Stuart Mill called "the unearned increment," are by no means exhaustive. But they should serve the present purpose of illustrating some of the effects, and the world scope and significance of the problem. The adverse effects are particularly apparent where agricultural land is concentrated in the hands of a few, and in large cities where the supply of land is small and the demand great, causing rents to rise at progressive rates with the intensity of cultivation and development.

II

Common Land Ownership in Prehistory and History

LAND HISTORIANS AND ANTHROPOLOGISTS have differing opinions regarding the terms under which man originally held land. Whether or not this relationship was the same among all people, and what were the course and causes of changes, is not fully agreed upon. The evidence is fragmentary and doubts may always exist. One school of thought, represented by Sir Henry S. Maine,⁵ Emile de Laveleye,⁶ George L. von Maurer,⁷ and others, found reason for thinking that land ownership originally resided in the society at large and has gradually been appropriated by individuals and groups as private property.

Others, such as Max Weber,⁸ believe that private ownership of land was the original practice in some areas, such as Germany.

Jules Toutain reached the following conclusion regarding the ownership of cultivated lands in ancient Greece: "We find private ownership and individual ownership, without being able to say that there was no family and collective ownership at all."⁹

W. Schmidt¹⁰ tells us that among nearly all primitive hunting and food-gathering peoples a kind of land ownership is exercised over their immediate area by a *Grossfamilie* or sib, composed of parents, children, and grandparents, but that any sense of land ownership virtually disappears when a stage of animal breeding and herding is entered into.

⁵ Sir Henry S. Maine, *Ancient Law* (New York: Henry Holt, 1906).

⁶ Emile de Laveleye, *Primitive Property* (London: Macmillan & Co., Ltd., 1878).

⁷ George L. von Maurer, *Einleitung Zur Geschichte Der Mark-Hof-Dorf Und Stadtverfassung* (Berlin: C. Keiser, 1854).

⁸ Max Weber, *General Economic History* (New York: Greenburg, 1927).

⁹ Jules Toutain, *The Economic Life of the Ancient World* (New York: Alfred A. Knopf, 1930), p. 17.

¹⁰ W. Schmidt, "The Position of Women with Regard to Property in Primitive Society," *American Anthropologist* (April-June, 1935), p. 244ff.

Jan St. Lewinski's¹¹ findings agree with those of Schmidt that among nomadic peoples of Asia there is no concept of property in land. He further finds that the concept of ownership in the land is generally influenced by the economic life. Communal effort applied to the land develops a communal ownership of land. Conversely, private individual enterprise develops a private ownership in land. The more intensively land is cultivated, the more strongly developed does the sense of ownership in it become. Another influence noted by St. Lewinski upon the development of land ownership claims is what he calls *Scarcity*. This influence, or cause, begins to operate when population growth reaches a stage where a scarcity—or pending scarcity—of desirable land is sensed. Individuals then are motivated to establish secure control of land in the vicinity of their abodes, to provide for their own needs and for their exclusive use, even though no labor may have yet been applied to it. Fences and landmarks begin to appear more frequently. Where a number of individuals or a whole community have designs on a given site (social scarcity), the site may be divided up by the community among the claimants, or held as common ground, often with regulations applied to all in regard to its use.

Further growth of population frequently leads to conflict between those who have land and those who do not. St. Lewinski notes that pressure for land equalization induced by population growth usually passes through three recognizable stages:

First Stage—There exists no equalization, the community merely restricts the right to free occupation.

Second Stage—The community possesses the right to transfer property from one person to another.

Third Stage—The land is periodically divided.

St. Lewinski develops this treatment of the growth of land ownership and the community in detail, and provides numerous specific accounts as examples. It is perhaps worth including here, verbatim, the last paragraph preceding his final chapter, entitled "Conclusion."

Such in broad outline, is the history of the development of the village community. No idealistic principles guided its evolution according to the postulates of any theory, but the necessities of daily life determined the path of this primitive economic policy. With the growth of the number of those who are not satisfied with the old order of things, the measure tending to abolish them becomes more and more radical. This evolution, characterized by a transition from a *laissez-faire* policy to a developed system of social intervention, is not simultaneous on all lands. According to

¹¹ Jan St. Lewinski, *The Origin of Property* (London: Constable & Co., Ltd., 1913).

the degree of need which makes an equalization necessary, and according to the difficulties encountered by such policy, it originates at different times and advances at different rates.¹²

St. Lewinski's observations were made in Asia. We cannot, of course, generalize from them that all people, particularly those in less acquisitive, individualistic, or competitive cultures, *e.g.*, the Zuni or Hopi Indian tribes, would react to the conditions described in the same manner.

The similarity of St. Lewinski's findings (that property claims grow out of the investment of labor) with Locke's philosophy is striking. Possibly St. Lewinski could have linked the two principles of labor and scarcity more explicitly to a deeper common motive, that of survival. In any case, one comment especially should be made on his thesis which has particular bearing on this study. In regard to his observation of property claims in land growing out of the labor invested in it, it should be noted that land so improved is by strict economic classification no longer land—to the extent that it has been improved—but wealth. If the site is used for production it is capital, again only to the extent of its improvement. A determination as to what extent an improved site remains land and to what extent it becomes wealth may be difficult. But there is a distinction and it is invariably recognized in land reforms (and real estate tax systems) to one degree or another, as St. Lewinski himself points out.

Although it is true that improvements decay and return to the land and become part of the common heritage, while they are active in the economy and identified as belonging to particular persons they are classified as wealth. The point of distinction is an important one.

It seems clear that common equity in land can be achieved by only a few major alternative arrangements, or some variation or combination use of them.

Dividing the total land area among the population requires redistribution in line with population changes if equity is to be maintained. Such changes preclude secure individual tenure conducive to substantial improvement and development of the community. Land division and redistribution is a crude solution to the land problem. But it is used frequently enough in agrarian societies to warrant treatment as a separate brief topic later.

Common use of all land would require general agreement on its use, the nature and extent of improvement, etc., and this agreement would usually extend into a pooling of labor and joint ownership of wealth produced. In line with St. Lewinski's observations that communal work effort

¹² *Ibid.*, p. 56.

leads to common ownership of the land, the reverse of the process would usually bring about the same condition—a communal way of life. Whatever the advantages of this kind of system, it limits economic development by individual enterprise and the variations in tangible productions which could occur if individuals had freer latitude to follow their own inclinations. It accommodates people to the problem, rather than accommodating the problem to the people. Experiments in this kind of living by various groups on a voluntary basis have generally failed to produce outstanding development of a community or a satisfying way of life for a large population.

Collective farming and other collective uses of land in Russia and in her satellite colonies (where not only land but capital and labor are treated as common property) seem to provide insufficient work incentive to solve the perennial food production problems there, to say nothing of the sacrifice of life and suppression of individual freedom involved in the establishment of that kind of communism.¹³

Individual holding and use of land with a common sharing of that part of the produce of land which is attributable to the unimproved land itself, or an equivalent rental value based on the productive capacity of the land, represents a more parsimonious solution to the land problem. This approach, most fully developed in principle by Henry George, has special merits, particularly for a society built on private land ownership and plagued with the problems attending private land ownership.¹⁴ The approach has been favorably tried in varying degrees and in enough places to deserve extended consideration of the theory and the experience. I shall go into it and other fiscal control measures in a separate article.

III

Land Division and Redistribution in Modern Times

IN LATIN AMERICA, Egypt, Iran, Italy and elsewhere, the primary land tenure reform method is to break up huge estates and to redistribute land more widely. Mexico led this movement in Latin America beginning in 1915, after the revolution. At the time less than 5 per cent of the population owned Mexico's rural lands.¹⁵ Government has since been taking

¹³ See, for example, William J. Miller, Henry L. Roberts, and Marshall D. Shulman, *The Meaning of Communism* (Morristown, N.J.: Silver Burdett Co., 1963).

¹⁴ For definitive exposition of this and related topics, read Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1960). For a more recent treatment of this topic with emphasis on its application to underdeveloped areas, see Haskell P. Wald, *Taxation of Agricultural Land in Underdeveloped Economies* (Cambridge, Mass.: Harvard University Press, 1959).

¹⁵ George McCutcheon McBride, *The Land Systems of Mexico* (New York: American Geographical Society, 1923), p. 154.

land from the large landowners. Usually compensation is given. The land is then allotted to landless peasants for individual or, more often, cooperative group cultivation. Public land, formerly uncultivated, is also being used. This program is accompanied with technical help, financial credit, improved irrigation, transportation improvements for better marketing, etc. The results of Mexico's agrarian reform program to date have been generally successful. The standard of living, the culture and social position of the farmers thus far affected by the reforms have improved, as has the general economic development and political contentment of the country as a whole. However, this general economic improvement is by no means entirely attributable to land reform.

Many of the Central and South American countries are making some progress along the same lines as Mexico. Far-reaching social and economic reforms are needed throughout all of Latin America, along with the reform of land tenure, but land tenure reforms are a central issue in bringing them about.¹⁶

The land distribution carried out on Taiwan by Chiang Kai-shek is considered very successful. It is important to note, however, that the carrying out of the more radical land reforms advocated by his predecessor, Sun Yat-sen, might have been important in saving the mainland from the communist movement.¹⁷

Breaking up and redistributing large land holdings is a very old measure and the natural tendency toward concentration inevitably reasserts itself. It is also questionable from an economic efficiency standpoint. Small farms do not warrant the employment of large capitals and the large-scale farm methods which mean lower unit costs of production.

One of the earliest and most significant land division reforms of which we have records occurred in ancient Greece during the closing years of the seventh century, under the leadership of Solon and Peisistratus. These reforms are generally credited with changing the condition of Attica from one of impending revolt, such as resulted in the practical downfall of Megara, to one of agrarian and commercial prosperity. Athenians of later generations considered these reforms instrumental to the founding of their famous democracy. The change in the form of government was not an

¹⁶ For an excellent review of the land problem in Latin America, see Haskell P. Wald, "Taxation of Agriculture in Latin America," *Tax Policy*, Vol. XXIX, No. 12 (December, 1952).

¹⁷ For a perceptive report on recent Chinese history through World War II, including the failures of the Kuomintang and the growth of communist support, see Theodore H. White and Annalee Jacoby, *Thunder Out of China* (New York: William Sloan Associates, Inc., 1946).

intended, but an unintended, by-product, which makes the incident especially instructive as well as fortunate.¹⁸

Perfect equality of opportunity cannot be achieved by dividing up land, and any attempt to keep the division current with population would provide such insecure tenure as to undermine incentive for improvement. Land division is, of course, for these reasons, limited to agrarian society. But the problem is equally pressing in urban societies. Land division and redistribution do not seem to be the definitive answer to the land problem, though it may be the best solution that can be arrived at in some situations. It may, of course, be used as the first stage in a program.

By dealing with rent, however, rather than the land itself, we can satisfy both the criterion of equity and the criterion of economic allocation of land at the same time. Subsidiary advantages are also gained. This approach requires little or no direct interference with the existing pattern or rights of holdings. Nor does it require a change in the system by which rights or holdings are transferred. Decisions on actual land holdings and allocation may be left to the people themselves within the market system. The rent of land can be assessed, collected, and used as a general revenue source, or it could even be redistributed directly among all the people. The rent approach to the land problem is equally appropriate for both urban and rural areas and is at least no more difficult to administer than a system of direct substitution of public for private allocation of land.

Asheville, North Carolina

¹⁸ For a more complete account of this period of ancient Greek history, see W. J. Woodhouse, *Solon the Liberator* (London: Oxford University Press, 1938).

The Man Who is Free

THE MAN WHO is fully free is one who lives in a country which is independent; in a State which is democratic; in a society where the laws are equal and restrictions are at a minimum; in an economic system in which he has the latitude of a secure livelihood and assured comfort, and full opportunity to rise by merit. [From the Royal Bank of Canada *Monthly Letter*.]

REVIEWS

Pollack on Populism: *A Critique of the Populist Response to Industrial America*

By HERBERT SHAPIRO

I

Introduction

PUBLISHED IN 1962, Norman Pollack's *The Populist Response to Industrial America* is an attempt at full-scale defense of the Populist tradition. Where a number of recent scholars have seen the Populists as contributors to a politics of irrationality and nostalgia, Professor Pollack places them in the forefront of the democratic heritage. In the book's final chapter Pollack draws his conclusion:

Populism was a progressive social force. It accepted industrial society, posed solutions not seeking to turn back the clock and was strongly pro-labor. Yet the movement was progressive in a still more profound sense. Not only did Populism look forward rather than backward, but it also was deeply committed to freedom. It attacked the very character of industrial capitalist society, not only on economic but also humanistic grounds. . . . The issue at stake was nothing less than human dignity. And for Populism this permitted but one conclusion: Industrial America must be altered in a truly democratic direction. Technology must be harnessed for human uses, not for creating the surplus worker. Indeed, Populism was more than a protest movement; it was a glorious chapter in the eternal struggle for human rights.¹

Pollack sees the Populists as making a major contribution to American radicalism. The agrarians are praised for furnishing "an extraordinarily penetrating critique of industrial society" and it is Pollack's view that Populist success "could have fundamentally altered American society in a socialist direction."²

Norman Pollack's appraisal of the Populists compels us to grapple again with the Populist critique of modern industrial society. The Populists recognized that technology must be put to uses that benefit men. They did not reject science and mechanization but insisted that these forces must be put under social control. They illuminated the contradiction existing between political democracy and the excessive economic

¹ Norman Pollack, *The Populist Response to Industrial America* (Cambridge: Harvard University Press, 1962), p. 143.

² *Ibid.*, pp. 9, 12.

power wielded by corporations. They fastened upon the theme of "superfluous man" separated from a useful function by the faulty organization of society. They believed that if there were large numbers of tramps and vagabonds moving around society, this situation was the product of social maladjustment.

Pollack reminds us of the perception and insight in the Populist analysis of society; not all Populist spokesmen can be dismissed as cranks and half-brained visionaries. Professor Pollack recalls the flavor of Populist rhetoric. He has searched extensively in the sources of Midwest Populism and conveys a strong sense of what Populists at the grass-roots level had to say. His work points up the importance of viewing a social movement as an interaction of leadership with rank and file. Finally Pollack's work, particularly when viewed in connection with the studies of Martin Ridge and Walter Nugent, has raised serious questions about the analyses of Populism offered by such scholars as Oscar Handlin and Richard Hofstadter. The studies of Pollack, Ridge, and Nugent, added to the earlier defense of Populism offered by C. Vann Woodward, have opened a serious dialogue within the historical profession concerning interpretation of the Populist period.³

II

Nature of Populism

POLLACK'S VIEW OF POPULISM, however, does not escape the cul de sac into which much of the recent research into Populism has fallen. The Populists are viewed in terms of stereotypes; the political battles of the 1890's are reduced to a conflict of saints against sinners. Victor Ferkiss has portrayed the Populists as premature fascists while Pollack sees them as heroes of the radical tradition.⁴ Pollack's view is probably much closer to reality, but his case is badly weakened by a tendency to see the Populists without serious blemish and a failure to see the subtleties and ambiguities expressed in Populism.

In posing one stereotyped view of the Populist era against another Pollack fails to provide a fully effective challenge to the views of his-

³ For defense of the Populist tradition see Walter Nugent, *The Tolerant Populists: Kansas Populism and Nativism* (Chicago: University of Chicago Press, 1963); Martin Ridge, *Ignatius Donnelly* (Chicago: University of Chicago Press, 1962), and the essay by C. Vann Woodward, "The Populist Heritage and the Intellectual," *American Scholar*, 29 (Winter, 1959-60), pp. 55-72; for more critical evaluations see Oscar Handlin, "American Views of the Jew at the Opening of the Twentieth Century," *Publications of the American Jewish Historical Society*, 40 (1951), pp. 323-44; also Oscar Handlin, "Reconsidering the Populists," *Agricultural History* (April, 1965), pp. 68-74, and Richard Hofstadter, *Age of Reform* (New York: Alfred Knopf, 1955), pp. 23-130.

⁴ Victor Ferkiss, "Populist Influences on American Fascism," *Western Political Quarterly*, 10 (June, 1957).

torians with whom he is in disagreement. *The Populist Response to Industrial America* is, of course, a slender volume; there is no pretense that it is a general history of Populism. Undoubtedly in the future Professor Pollack will set forth his interpretation of Populism in more elaborated form. But in this first book the author's general approach to Populism is clearly outlined and some questions are in order.

Professor Pollack bases his case upon the view that Populism was a progressive force, a force that accepted material progress and sought to reap its benefits for mankind. This generalization rests upon research in the records of Midwest Populism. But Midwestern Populism was only one wing of the movement; complementing the Midwest agrarian upsurge was a powerful movement in the South. Much exploration still needs to be done in the records of Southern Populism, but it is clear that there are aspects of the Southern movement whose "progressive" character was questionable. This is particularly true with regard to the race question. Many of the Southern Populists sought the electoral support of Negroes and argued that Negroes and poor whites could be united on the basis of economic self-interest.⁵ Poor white Democrats and Negro Republicans, they maintained, were exploited by Eastern corporations. Populism was the means through which Negroes and whites could shed their old party loyalties and come together on the common ground of Populism.

Tom Watson expressed this viewpoint eloquently in an article in the October, 1892, issue of the *Arena*.⁶ But the record of Southern white Populism is seriously flawed by racism. This racism did not begin with the defeat of William Jennings Bryan in 1896, although racism in the years following the crushing of Populist political hopes was more direct and virulent. The Populists sought Negro votes and promised the Negro protection at the polling place, but little interest was shown in enforcing the constitutional amendments that resulted from Reconstruction. Tom Watson accepted a conventional racist view of Reconstruction. He saw the period as marked by Negro aggressiveness incited by Northern adventurers who swooped down with the Union armies. The crucial point was that the South must be let alone to resolve its racial problems. On a number of economic questions the Populists urged broader use of federal

⁵ There was considerable diversity among Southern Populists on the question of seeking a Negro-white coalition. For studies of Populist state movements that showed little interest in challenging white supremacy see Helen G. Edmonds, *The Negro and Fusion Politics in North Carolina* (Chapel Hill: University of North Carolina Press, 1951), and Charles E. Wynes, *Race Relations in Virginia, 1870-1902* (Charlottesville: University of Virginia Press, 1961).

⁶ Thomas E. Watson, "The Negro Question in the South," *The Arena*, 6 (October, 1892), pp. 540-50, quoted in George Tindall, ed., *A Populist Reader* (New York: Harper and Row, 1966).

power, but on the matter of civil rights federal power was suspect. Watson urged the Negro to put his trust in action at the state level to protect the franchise.⁷

An important precursor of Populism was the Farmers' Alliance Movement. Thousands of Negro and white farmers in the South joined local organizations of the Alliance, but Negroes joined the Colored Alliance while white farmers joined an Alliance that was exclusively for whites. The Alliance movement also rejected federal enforcement of Negro voting rights in the South. The Alliance urged white farmers to uphold the political rights of the Negro, but at the same time it opposed new federal legislation in this area.⁸

The Populist movement as a whole stood against federal action in support of Negro voting rights. The central issue here was the Lodge "Force" Bill, the measure introduced in the 1890 House of Representatives that would establish a federal machinery for protection of the Negro franchise in the South. Southern white Populists opposed the bill and on this question the national Populist leadership supported the white Southern position.

In 1890 Populist James Weaver, who was to run in 1892 as the Populist presidential candidate, spoke up against the Lodge Bill and proclaimed that the Republican Party did not hesitate "to trample under foot the plain letter of the Constitution, the traditions of the fathers and the liberties of the people."⁹ The Populist platform of 1892 called for free elections but "without federal intervention." In 1896 William Jennings Bryan ran on a platform that repudiated "arbitrary interference by Federal authorities in local affairs. . . ."¹⁰ The Democratic commitment here was consistent with the established Populist position and no evidence exists that Populist anxiety about the Bryan candidacy extended to this plank of the Democratic platform.

Evaluation of the platforms of Southern agrarianism is difficult in the simple terms of "progressive" and "reactionary." The Southern view is perhaps best expressed in the Ocala program of 1890. The Ocala conference was convened by the Alliance, but its program was standard Populist doctrine. The center of attention was upon questions of currency, credit, and transportation. Little direct response was indicated

⁷ *Ibid.*, pp. 118-19, 125.

⁸ Jack Abramowitz, "The Negro in The Agrarian Revolt," *Agricultural History*, 24 (1950), pp. 89-95, p. 92.

⁹ Fred Emory Haynes, *James Baird Weaver* (Iowa City: State Historical Society of Iowa, 1919), p. 302.

¹⁰ Tindall, *op. cit.*, p. 95; Stanley L. Jones, *The Presidential Election of 1896* (Madison: University of Wisconsin Press, 1964), p. 221.

here to the process of industrialization. Support was given to the popular election of senators. The principle of "equal rights to all and special privileges to none" was advocated. But in general theirs was a program for the protection of agrarian interests quite apart from any evaluation of industrialism.¹¹ The Ocala meeting did not directly address itself to the problems of the Southern city or to the problems emerging with the spread of factories. The race issue emerged mainly in the form of a rejection of the Force Bill.

The most original contribution of Ocala was the proposal for the establishment of subtreasuries or depositories that would extend credit on the basis of deposits of agricultural commodities. Most radical was the proposal that nationalization of the means of communication and transportation would have to be considered if regulation proved inadequate. At Ocala, as at the 1889 Southern Alliance meeting in St. Louis, the stress was upon issues of immediate concern to the farmer. Consistent with the progressive tradition was a challenge to the property rights of entrenched wealth. The Southern Populists certainly were not Luddites who urged destruction of the machines. But they were unable to probe deeply into the workings of modern industrial society and failed to produce anything approaching a comprehensive program to solve the problems industrialization produced. In this light the term "progressive" as Pollack uses the word is of limited usefulness as a description of Southern Populism. A response to industrialism was not at the heart of Southern Populism and the humanitarianism of the agrarians proved qualified when it came to the Negro.

III

Populist Programs

A WEAKNESS IN Pollack's treatment of Midwestern Populism is his neglect of Populist programs. It is useful to have accounts of Populist editorials and speeches in order to focus on expressions of grass-roots sentiments. But how did this sentiment reflect itself in the platforms and declarations of the People's Party? Pollack refers at one point to a letter from a Madison, Kansas, Populist that urges inclusion of a plank favoring slum eradication in the 1892 Populist St. Louis platform. This is a valid expression of a grass-roots sentiment, but it might also be added that the St. Louis platform is silent on this point.¹² Of course this plank may have been omitted for any number of reasons, but the difficulty is that Pollack

¹¹ See Tindall, *op. cit.*, pp. 88, 89.

¹² Pollack, *op. cit.*, p. 60; for text of St. Louis platform see John D. Hicks, *The Populist Revolt* (Minneapolis: University of Minnesota Press, 1931), pp. 435-39.

communicates the sentiment while ignoring an analysis of the program. Such an analysis indicates that the Populists fell short of formulating a systematic response to industrial capitalism.

The rhetoric of the Populist platform evinces the conflict of the plutocracy against the exploited majority. The St. Louis platform speaks of a "vast conspiracy against mankind." The Omaha program of July, 1892, speaks of prostrated business, impoverished labor, a silenced public opinion; only the capitalists prosper. "The fruits of the toil of millions," the platform reads, "are boldly stolen to build up colossal fortunes for a few. . . . From the same prolific womb of governmental injustice we breed the two great classes—tramps and millionaires." The political parties, it went on, have been carrying on sham battles as a mask for their policies of privilege and plunder, but the Populists have by no means lost faith in government. Their platform affirmed that "the powers of the government . . . should be expanded . . . as rapidly and as far as the good sense of an intelligent people and the teachings of experience shall justify, to the end that oppression, injustice and poverty shall eventually cease in the land."¹³

The Populists stressed their commitment to the union of urban and rural labor. In the specifics of their programs, however, the Populists' main attention was to currency problems, transportation, and questions of land tenure. Planks were adopted favoring such things as the initiative and referendum, the adoption of the short ballot, direct election of senators, and a limitation of presidential tenure to one term. The concerns of the city, the challenge of industrial monopoly, the problems of labor unionism were referred to only peripherally. The Populists knew they needed nonagrarian allies, but their program was inadequate to the needs of an increasingly urbanized America in which the factory was the outstanding symbol of American economic strength.

The Populists spoke of enlarging the government's sphere of activity, but their specific commitments show little recognition of the possible welfare functions the government might fulfill. With regard to the Negro and the special disadvantages he faced, the Populist national platforms were silent. The main stress in the Populist program was on agrarian response to capitalism, the thrust was generally democratic and anti-monopoly, but the end product could not effectively meet the basic problems of a swiftly changing America. This failure need not be explained in terms of a nostalgic clinging to an illusory America past. More pertinent is the fact that the Populists, with the possible exception of such urban supporters as Henry Demarest Lloyd, operating as they did

¹³ See Hicks, *op. cit.*, pp. 436, 440, 441.

in an agrarian framework, were simply not in a position to formulate a comprehensive radical program. In the future agrarians would have their say, but the forces unleashed by industrialization would find their voices too. Urban intellectuals and articulate labor spokesmen had a familiarity with the problems of urban, industrial America that the Populists could not match.

The farmers' relation to working class discontent is a theme to which Professor Pollack devotes considerable attention.¹⁴ The Populists recognized the need for farmer-labor alliance and Pollack cites considerable evidence that reveals Populist solidarity with the labor movement in crucial struggles. Why then was there no Populist-labor alliance? In Pollack's view the responsibility rests almost entirely with the conservative American Federation of Labor and particularly Samuel Gompers. Gompers portrayed the Populists as composed of employing farmers and used this image of the Populists as the basis for his rejection of the movement. But in actuality his real objection to a labor-farmer alliance was Populist radicalism. Gompers held to his rejection of cooperation in the face of strong appeals by such radicals as Henry Demarest Lloyd for a shift in policy.

The trouble with this analysis of the failure to unite the labor movement with agrarianism is that only one side of the picture is considered. The Populists did not ignore the need for labor allies, but pressures were also operating within Populism that prevented consummation of an alliance. In 1892 Samuel Gompers wrote of Populism: "Composed as the People's Party is, mainly of employing farmers without any regard to the interests of the employed farmers of the country districts or the mechanics and laborers of the industrial centres, there must of necessity be a divergence of purposes, methods and interests."¹⁵

Gompers' description of Populists as mainly employing farmers is considerably exaggerated, and doubtless he was reluctant to support any move that would plunge organized labor into third-party politics. Nevertheless there was a germ of truth in Gompers' words. The class makeup of the Populist movement was heterogeneous. The Populists found support among the rural poor but also among individuals of considerable substance. A number of Populist leaders, among them Tom Watson, James Weaver, Ignatius Donnelly, were men from fairly respectable positions in society. Pollack refers to the efforts of labor sympathizers, such as Ethelbert

¹⁴ Pollack, *op. cit.*, pp. 43-67.

¹⁵ Samuel Gompers, "Organized Labor in the Campaign," *North American Review* (July, 1892), quoted in Tindall, *op. cit.*, p. 187.

Stewart, to convince urban radicals of the need to support the Populists, but even Stewart admitted: "There are farmers, and farmers, the rich farmer who rents out all his farm but the homestead '40' is in sympathy with capitalism. . . ."

Henry Demarest Lloyd urged labor support for Populism, but Lloyd, too, recognized the class lines that complicated the task of aligning the farmers with urban labor. In 1894 Lloyd wrote, "The People's Party is a middle class party, a permanent union of the working men with it might prove unprofitable, as it contains too many doubtful and unprogressive elements."¹⁶ Lloyd saw alliance with the Populists as a means of educating the more conservative farmers to take a more radical position. Pollack states: "Farmers felt at one with workers, not through an ideology of producer values but a conviction that both groups had been reduced to the same economic position."¹⁷

It may be questioned that all farmers shared this view; certainly rural sentiment varied in the East as compared to the plains states, but beyond this, whatever the subjective reaction, all farmers and workers did not share the same economic position. The rural population ran the gamut from destitute farm laborers to well-to-do landowners. The agrarian radicals did not even share the same economic interests. In the South, when faced with the threat of a strike by Negro cotton pickers, white Alliance farmers proposed to let the cotton remain in the fields rather than accede to the Negroes' wage demands.¹⁸ The farmer and the worker may have seen a common enemy—the excessive power of the corporations—and could even share a distaste for both Republican and Democratic parties that seemed committed to a defense of corporation power; but these interests, interests that crossed class lines, did not eradicate all economic differences between the agrarian and the worker.

Further, an analysis of the Populist program demonstrates that Populists did not envision the workers as allies in terms of full equality. Populists did support the eight-hour day and condemn the activities of the Pinkerton agency; the Omaha platform supported the Knights of Labor in their struggle with Rochester manufacturers. But the main weight of the Populist program was felt on questions of direct concern to the discontented farmer. Beyond that when Populism came to confront the critical political choices of 1896, it allowed itself to be drawn into support

¹⁶ Pollack, *op. cit.* p. 43.

¹⁷ *Ibid.*

¹⁸ See C. Vann Woodward, *Tom Watson* (New York: The Macmillan Co., 1938), p. 219.

of a Bryan candidacy that revolved around one issue, the question of free silver.

Populist enlistment in the Bryan crusade enabled Republican campaigners to charge effectively that the agrarians threatened to undermine the industrial workers' wages. When the movement was put to the test it found acceptable a presidential candidate who focused on an issue that had little direct relation to the country's productive system. It may properly be argued that the labor movement should have sought to exert an influence on Populism, should have entered the movement and used its influence to strengthen Populism and restrain any tendency to chase after currency panaceas. A truly far-sighted labor leadership might well have done that. But failure to adopt such a strategy was encouraged by the limitations of the Populists. If the Populists had been able to formulate a comprehensive program of labor demands and had waged a significant fight for such a program, Gompers might have found himself unable to keep the AFL out of the People's Party. The Populists, however, were unable to transcend their agrarian origins.

IV

Populism and Marxism

PROFESSOR POLLACK DIGRESSES in *The Populist Response to Industrial America* to compare Populism with Marxism. His thesis is that comparison of the two ideologies reveals "such remarkable similarities as to suggest further proof that Populism was radical." According to Pollack, for both the Marxian and the Populist "capitalism meant alienated man—man divorced from himself, his product and—humanity." Pollack does not argue that Marxism and Populism are identical. The Populist vision of America, he says, "was not socialized production and the collective farm." However, he is impressed with the areas of agreement shared by the Populists and the Marxists. Marxist and Populist agree on capitalism as the cause of the worker's estrangement from his work and other men; they agree that ideology is a reflection of dominant group interests; they both find in capitalism the accumulation of wealth and the intensification of poverty. According to Pollack, they both saw capitalism developing through dialectical process. On the basis of these similarities Pollack draws the conclusion that a workable hypothesis for American history may be that "capitalist development assumed the same pattern in the United States and Europe."¹⁹

Pollack's view that in some respects Marxism and Populism share com-

¹⁹ Pollack, *op. cit.*, pp. 68-84.

mon viewpoints is unexceptionable. Marxism and Populism are two components of a tradition of serious criticism of latter nineteenth-century capitalism, and it is not surprising that the critiques offered by each of them overlap. But the areas where the Marxist and the Populist agree are not enough to support a conclusion that capitalist development in America and Western Europe follows the same pattern. Pollack's evidence would not support anything more than a hypothesis that there are important similarities between capitalism in America and Europe.

In actuality, the differences in ideology are as striking as the resemblances. Pollack grants that for the Populist the Marxian analysis of the relation between ideological and material factors in society was unknown territory. He goes on to say that the Marxians, unlike the Populists, analyzed business cycles through the falling tendency of the rate of profit.²⁰ But in many other areas as well there are striking differences. Where in Populism is there anything similar to Marx's concept of the industrial proletariat as the leading force that inevitably will transform society? Where in Populism is there the concept of the State as intrinsically an instrument for the perpetuation of class rule by whatever class is in power? Where is there the historical analysis that sees capitalism and communism as stages in an inevitable historical development? Where is there the economic analysis in which, according to the theory of surplus value, labor power is that unique commodity that is able to reproduce more than its own value?

The basic problem, it might be suggested, is that Marxism and Populism in one very basic sense differ greatly from each other as approaches to society. Populism is primarily a description of social injustices the Populists found abhorrent. Populism was not a systematic, comprehensive theory of social development. Nothing in Populism can be considered comparable to Marxian dialectical materialism. If there is anything approaching a Populist *Weltanschauung*, it is a haphazard, unassorted compound of strands of thought produced by various Populists. Whatever there is of social theory in Populism is largely a by-product of the Populist polemic against specifics of American capitalism of the late nineteenth century.

Perhaps more appropriate than a comparison of Populism and Marxism would be some comparison of the American agrarian movement with agrarian responses to industrialization in other countries. For example, with the "populism" of the Russian Narodniks who challenged the Tsarist

²⁰ *Ibid.*, pp. 71, 73.

system and gave the socialists serious competition. Such comparative studies might test Pollack's hypothesis that the American agrarian experience is a notable exception to the general pattern of agrarian responses to capitalism. According to Professor Pollack, "agrarianism in a world perspective takes on the shape of a retrogressive social force," but the American Populists are different.²¹ It is striking that—with his view that America and Europe share a common pattern of capitalism—he has closed the front door on American uniqueness only to lead it in at the back with his conception of a radically different American agrarianism.

In his book Norman Pollack focuses on class struggle and revolution as themes present in Populist literature. Populists are quoted who assert that the dislocation of society cannot be eliminated without revolution. Illustrations are given of the Populist interest in the theme of class struggle. Yet there is an ambivalence in this aspect of Populist thought to which Pollack refers only in passing. A Populist attorney, Blanton Duncan, is quoted to the effect that it would be unwise to encourage "in any manner the march of the poor" against those who would delight in shooting down the unemployed. Duncan was concerned that acts of violence might shake the government to its foundations and destroy half of the country's property values.²²

Such an ambivalent attitude towards revolution is also found in more extended form in Ignatius Donnelly's novel, *Caesar's Column*. *Caesar's Column* describes a society in which there is no alternative to a violent revolution which destroys the ruling plutocracy. But plutocracy corrupts the oppressed as well as the oppressor, and at the end of the novel the only hope for civilization rests with "The Garden in the Mountains," the republic in the Swiss mountains whose isolation makes possible the good society. The governing body in this society is The People, divided into three branches with mechanics and farmers constituting one branch, merchants and manufacturers the second, and intellectuals the third.²³ In form at least The People bears considerable resemblance to the corporate State. Donnelly's *Caesar's Column* is a warning against allowing class tensions to culminate in revolution. A physical confrontation of the classes may become inevitable, but it results only in universal destruction.

Caesar's Column, of course, is only one novel, but the Populist ambivalence on class is also reflected in the official programs of the People's

²¹ *Ibid.*, pp. 2, 3.

²² *Ibid.*, p. 78.

²³ Ignatius Donnelly, *Caesar's Column*, Walter B. Rideout, ed. (Cambridge: Harvard University Press, 1960), p. 304.

Party. In them is contained a description of the Populist movement as a coming together of "intelligent working people and producers of the United States. . . ." The Populists protest the injuries inflicted upon the farmers, business, and urban workers. The Populists did not propose to replace one kind of class government with another. In the St. Louis platform the Populists present themselves as restorers who seek to turn back the government "to the hands of the 'plain people' with whom it originated." The Populists declared: "Our doors are open to all points of the compass. We ask all men to join with us and help us." At the 1891 Cincinnati convention the Populists urged that "taxation, national, state or municipal, shall not be used to build up one interest or class at the expense of another."²⁴ At least in the rhetoric of official programs the Populists indicated they would reject class legislation aimed at conferring special advantages on either the rich or the poor.

Even Henry Demarest Lloyd, perhaps the most radical of the Populists, did not present Populism as a class movement. In his 1894 speech, "The Revolution Is Here," Lloyd presents the Chicago Populist movement as an effort of "workingmen, capitalists, single taxers and socialists." The basis of this coalition is the fact that the plutocrats have attacked the "consumer, the farmer and even the fellow capitalist."²⁵ In a movement aimed at curbing the power of a privileged elite, it was natural that there was the flavor of class conflict, but it should also be observed that often for the Populists the "class" they represented were the American people as a whole.

V

Populist Strategy

The Populist Response to Industrial America concludes with an evaluation of Populist strategy in 1896. Pollack presents the fusion tactic of 1896 as a radical policy. Fusion was "the last chance to advance Populism." The gamble failed, but there was no other alternative. The Populists endorsed fusion because they had their backs to the wall. The important thing is that the Populist leaders who arranged the Bryan nomination were aiming at radical objectives, the eventual realization of the full Populist program. The Populist Party was doomed, it is implied, one way or the other. He states that "the two-party structure insured its demise."²⁶

What Professor Pollack does not evaluate is any contribution the Populists may have made to their own undoing. Too much consideration

²⁴ Hicks, *op. cit.*, pp. 434, 436, 437.

²⁵ Quoted in Chester M. Destler, *American Radicalism: 1865-1901* (Chicago: Quadrangle Books, 1966), p. 217.

²⁶ Pollack, *op. cit.*, pp. 103, 104.

is given to Populist intentions and not enough attention to the impact of Populist actions. Perhaps another policy would also have failed, but it is clear that, despite subjective intentions, the 1896 fusion policy was an abandonment of a radical position that had to be taken seriously. The Populists had staked their political life on the basic hopelessness of the two-party system, and now in 1896 they found themselves nominating a Democratic presidential candidate. It did not help matters much that apparently some Populist radicals told themselves that Bryan was a socialist at heart.²⁷

By the nomination of Bryan the Populists reinforced the view that there was some hope left for the two-party system. In the South, fusion threw the Populists into the arms of racist Democrats who were not at all interested in radicalism. By their endorsement of Bryan the Populists tied themselves to the silver crusade. The Populists risked everything on the outcome of the 1896 campaign and with Bryan's defeat they were finished. In the period after 1896 the Populist Party was unable even to maintain itself as a meaningful national organization. The Populists collapsed when it became clear that with Bryan as their nominee the movement had failed to accomplish what for it was so essential, to argue effectively the case for an independent radical movement, a movement based on a broad program for social change.

Several courses were open to the Populists in 1896. They could have held to the "middle of the road" position and run their own candidate. They could have avoided endorsing Bryan while urging defeat of McKinley. Or they could have endorsed Bryan without offering him as a Populist candidate. Perhaps none of these tactics would have proven wholly successful. But the Populists chose the alternative most likely to prove destructive of a radical movement. With the Bryan nomination the Populist leaders, at least temporarily, abandoned the direction of their own party, abandoned any hope of emerging as a presidential party. Deprived of a position as a party bidding for national power, the Populists were also unable to carve out a role for themselves as an ideologically unified pressure force. A comment by Henry Demarest Lloyd is helpful in understanding Populism's disintegration. In October, 1896, Lloyd wrote: "The People's Party is a fortuitous collection of the dissatisfied. If it had been organized around a clear-out principle . . . it could never have been seduced into fusion, nor induced even to consider the nomination of a man like Bryan who rejects its bottom doctrine."²⁸

²⁷ *Ibid.*, p. 141.

²⁸ *Ibid.*, p. 142.

The Populists were not unique as a movement that retained radical rhetoric while making practical arrangements compromising basic principles. It is understandable that in the excitement of 1896, with a drastic shift occurring in the position of the Democratic Party, the Populists were swept off their feet. The judgment of the Populist leaders is questioned, not their honesty. Unless Professor Pollack is prepared to argue that there was a fatal inevitability about the events of 1896, one might expect that he would probe for flaws in a radicalism that allowed itself to be swept along into a fusion ultimately destructive to the radical movement. This, at least in *The Populist Response to Industrial America*, he fails to do.

Perhaps the basic problem is that Professor Pollack has defended the Populists too much. One wonders at the end why a movement, apparently without serious defects, should ever have disappeared. The Populist tradition deserves a vigorous defense, but that defense will need to see Populism, not as a compound of all radical virtues, but as a living movement that voiced the grievances of millions and exposed some of the ugly realities of American society, yet was unable to formulate an effective strategy for social change.

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Growth of Labor-Intensive Manufactures

IMPORTS of labor-intensive manufactures from developing nations by the United States and other developed countries have been increasing, since the early 1950's, at the steady and impressive rate of 13 per cent per year. By 1965 these imports came to just under \$2½ billion. Though only one-tenth of total imports from the developing countries, the share of labor-intensive manufactures has been rising rapidly over the period.

If this trade continues to expand at the recent rate, it will climb to some \$10 billion by 1975. A report by Hal B. Lary¹ finds that there are, in fact, good reasons to expect a continued rapid growth.

The United States alone took 41 per cent of all 1965 labor-intensive manufactures exported by less developed countries to developed countries. Three countries—the United States, the United Kingdom, and West Germany—absorbed 72 per cent of such exports.

The study concludes that the chief condition for continued rapid growth in exports of manufactures by the developing nations is freer access to the markets of the developed world.

¹ *Imports of Manufactures from Less Developed Countries*. By Hal B. Lary. (New York: National Bureau of Economic Research; Columbia University Press, distributor, 1968), 286 pp., \$8.50.

Labor and Politics in Argentina

By ROBERT J. ALEXANDER

THIS VOLUME,¹ by a promising young scholar who was a student of Arthur Whitaker in his Seminar in Nationalism at the University of Pennsylvania, centers its attention on the influence of nationalism in the Argentine labor movement. It sketches the change of the Argentine labor movement from a position of internationalism in the period before World War I, through a phase of "liberal nationalism" between the wars, to the development of "criollo nationalism" under Perón.

Professor Baily has made an important and useful contribution to the study of modern Argentina. It contributes much to an understanding of the roots of Perón's power, and of his ability to keep the loyalty of a large proportion of the country's workers more than a decade after having been thrown out of office.

The Argentine labor movement began under predominantly anarchist influence, with a minority of organized workers following the socialists. In the two decades or more before World War I, both of these political tendencies tended to profess a belief in international labor solidarity which ruled out national loyalties and political nationalism. Furthermore, as Professor Baily points out, most of the organized workers of Argentina during this period were immigrants from Europe.

With the growth of the second-generation immigrant groups, and with the beginning of the drift of workers from the countryside to the cities, labor became more friendly disposed toward nationalism. This tendency was intensified by the propaganda efforts which certain intellectuals—particularly Manuel Ugarte and Alfredo Palacios, who had a more or less close association with the workers, and with the Socialist Party—had been carrying on for a couple decades.

However, although nationalism became more widespread among the trade unionists, it was a liberal tendency, professing belief in constitutional democracy and civil liberties as being necessary for the furtherance of the labor movement and the welfare of the workers. It was not until the rise of Perón in the middle 1940's that "criollo nationalism," having its roots at least as far back as the dictatorship of Juan Manuel Rosas in the middle years of the nineteenth century, came to be the predominant ideology of the labor movement. Professor Baily makes clear that this

¹ *Labor, Nationalism and Politics in Argentina*. By Samuel L. Baily (New Brunswick, N.J.: Rutgers University Press, 1967), 241 pp., \$8.

change was due both to the large number of migrants from the countryside, who had little knowledge of or interest in liberal ideas, and to the efforts on behalf of the workers by Colonel Juan Perón, Secretary of Labor between 1943 and 1945, and himself a "criollo nationalist."

In contrast to "liberal nationalism," the other brand of ideology was anti-democratic and authoritarian. It exalted Argentina over other nations and was oblivious to problems of civil liberties. As Baily makes clear, many of the labor leaders who rallied to Perón between 1943-45 were not themselves "criollo nationalists" and were forced by Perón to abandon their leadership positions.

Baily notes correctly that in the last years of Perón's government both his hold on the workers and the strength of "criollo nationalism" in organized labor declined because of the country's growing economic difficulties. However, he also notes that the policies of the Aramburu regime between 1955-58 once again refurbished Perón's reputation and his kind of nationalism.

Baily ends with a short discussion of the prospects of nationalism in the Argentine labor movement. He suggests that the children of migrants from the Argentine countryside, who increasingly make up the rank and file of organized labor, have been influenced by their upbringing in the cities and have tended to become less authoritarian in their nationalism. This tendency is fostered by the growth of a new generation of labor leaders within the Peronista camp who are primarily trade unionists. Baily tentatively suggests that there may be a revival of a somewhat more liberal version of nationalism than was prevalent during the Perón period.

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Unrelated Individuals: A "Backwash" Poverty Population

BY RICHARD X. CHASE

Introduction

IN AN EARLIER PAPER published in this journal, the author argued that among American families there are certain identifiable groups whose rate of poverty reduction was relatively unresponsive to the general rate of economic growth and progress.¹ These groups were: farm families, families with a head 65 years and over, nonwhite families, and families with a female head. These groups were also labeled "minority" population groups as they comprise the smaller part of a given population category. "Majority" population groups comprised the larger part of a given population category² and showed a significantly greater responsiveness to economic growth in their rates of poverty reduction.

Because poor³ "minority" group families appear to be considerably less responsive to economic growth and progress in reducing their level of poverty incidence than are "majority" group families, it was argued that the former constitute a relative "backwash" among which poverty can be expected to become increasingly more concentrated if past relationships are allowed to prevail into the future. This is to say that my earlier paper

¹ See Richard X. Chase, "Structural' and 'Aggregative' Emphasis in Anti-Poverty Policy," *American Journal of Economics and Sociology* 27 (January, 1968), pp. 9-26.

² Majority groups were: on the basis of residence, nonfarm families; on the basis of age, families whose head was under 65; on the basis of race, white families; and on the basis of sex of the head, families with a male head of household.

³ Poor families were defined as those with a total annual income of less than \$3,000 in 1962 dollars.

argued for the soundness of increasing policy emphasis on selective and specific anti-poverty programs aimed at those problems and characteristics that insulate poor "minority" group families from the salutary effects of general economic advance.

TABLE 1
NUMBER OF POOR UNITS^a AND POVERTY INCIDENCE AMONG FAMILIES
AND UNRELATED INDIVIDUALS, 1947-63

Year	Total Consumer Units (Families and Unrelated Individuals)		Families		Unrelated Individuals	
	Poor Consumer Units	Poverty Incidence	Poor Family Units	Poverty Incidence	Poor Unrelated Individuals	Poverty Incidence
	(Millions)	(Percentage)	(Millions)	(Percentage)	(Millions)	(Percentage)
1947	16.3	36.0	12.0	32.2	4.3	53.5
1948	17.2	37.0	12.8	33.1	4.5	55.2
1949	18.2	37.8	13.5	34.4	4.7	53.0
1950	17.5	35.6	12.6	31.6	4.9	53.1
1951	16.5	33.4	11.9	29.3	4.7	51.6
1952	16.2	31.8	11.5	28.0	4.7	47.8
1953-54	16.5 ^b	31.9 ^b	11.4 ^b	27.3 ^b	5.0 ^b	52.2 ^b
1955	15.5	29.5	10.6	24.7	4.9	50.3
1956	14.4	27.2	9.8	22.5	4.7	48.2
1957	14.8	27.4	9.9	22.7	4.9	47.4
1958	15.3	27.8	10.1	22.8	5.2	48.5
1959	14.8	26.5	9.8	21.7	5.0	46.5
1960	14.6	25.9	9.6	21.1	5.0	46.0
1961	14.8	25.8	9.8	21.1	5.0	45.2
1962	14.3	24.7	9.4	19.9	5.0	45.1
1963	13.9	23.7	8.9	18.8	5.0	44.5

^a Defined as less than \$3,000 for families and \$1,500 for unrelated individuals in 1962 dollars.

^b Source reports 1953 and 1954 as an average for the two years.

SOURCE: Data derived from *Current Population Reports, Consumer Income*, Series P-60, Nos. 13, 15, 17, 19, 21, 23, 25, 17, 19, 21, 22, 25, 27, 29, 31, 33, 35, 37, 39, 41, and 43, 1947 through 1963.

I

Extending the Analysis to Include Unrelated Individuals

STUDIES OF POVERTY and poverty reduction delineated according to the demographic characteristics of the population have most typically focused primarily on the family unit. They thereby tend to neglect that group classified by the Bureau of the Census in income data as unrelated individuals. Excluding this group obviously results in understating the number

of poor consumer units. An idea of the amount of such understatement over the 1947-63 period⁴ is provided by Table 1. For example, in 1962 about 9.4 million families were under the defined poverty boundary of \$3,000. But when unattached individuals in poverty—defined as those having incomes less than \$1,500 in 1962 dollars—are included, the total number of poor consumer units increases to 14.3 million, an increase of almost 5 million units. Not only does the inclusion of poor individuals increase the number of poor consumer units, but due to the higher incidence of poverty in the former group, the percentage incidence of poverty in consumer units inclusive of unrelated individuals is noticeably higher than it is for families alone. Thus in 1962 the percentage incidence of poverty among all consumers was almost 25 per cent, which was a fourth higher than the 20 per cent incidence rate for families alone.

The inclusion of unrelated individuals in the poverty count not only increases the percentage incidence of poverty in the aggregate at a point in time, but the strength of this upward effect has also tended to increase through time. In 1947, for example, inclusion of poor individuals in the poverty count would have increased the poverty incidence rate by about one-eighth (from 32.2 per cent for families to 36 per cent for all consumer units), as contrasted to 1962 when, as mentioned above, the inclusion of poor individuals increased the percentage incidence of poverty by one-fourth.

The reason for the strengthening of the upward effect of unrelated individuals on the incidence of aggregate poverty is that poverty reduction has proceeded at a slower pace among these consumer units than among poor family units. The percentage incidence of poverty has fallen for unrelated individuals, but it has fallen at a much slower rate than it has for families. Also, as Table 1 shows, while the absolute number of poor family units has decreased consistently over the 1947-63 period, the number of poor unattached persons has tended to increase somewhat.

These trends in the incidence of poverty for family and nonfamily units mean, in short, that as time passed poverty has tended to become more concentrated among unrelated individuals. Table 2 shows that while all nonfamily consumer units have remained a stable fraction of all consumer units, they have continually increased as a proportion of all poor consumer units.

The implication of the foregoing is that, as a group, unrelated individuals can be considered, relative to family units as a whole, a "minority"

⁴ This was the pre-"war on poverty" time span subjected to analysis in my earlier paper dealing with poor family units, cited above.

population. They also fit the concept of a "backwash" poverty population in that their poverty incidence rates are considerably higher than those among family units and their rates of poverty reduction are considerably lower—the latter indicating that, within the total population of American consumer units, poverty incidence has tended over time to become more concentrated among unrelated individuals.

II

The Statistical Analysis

IN ORDER TO KEEP the analysis of this paper comparable to the analysis of my earlier study on family units, and in order to estimate the relationship between levels of poverty incidence and economic growth for unrelated

TABLE 2
UNRELATED INDIVIDUALS AS A PERCENTAGE OF
ALL CONSUMER UNITS AND OF POOR CONSUMER
UNITS FOR SELECTED YEARS

	1947	1950	1953	1956	1960	1963
Unrelated Individuals:						
As a Percentage of All Consumer Units	18	19	19	18	19	19
As a Percentage of Poor Consumer Units	26	28	30	32	34	36

SOURCE: Data derived from Table 1.

individuals, regressions similar to those estimated for family units were fitted for the minority population of unrelated individuals and the data employed spans the same time period (1947–63). Reference to the earlier study on family units would show that the regression took the form:

$$(1) \quad P = ab^{-x}u,$$

where P was the level of poverty incidence, Y deflated personal income per capita (see Table 3 for data), and " u " a random error term. Fitting poverty incidence data for unrelated individuals (see Table 1 for data) for the 1947–63 period to this regression yielded:

$$(1b) \quad \log P = 1.9654 - .0001319Y, R^2 = .83. \\ (.000015)$$

In my earlier paper, when poverty incidence data for family units was regressed in similar fashion against deflated personal income per capita

for the 1947-63 period, the results were:

$$(6a) \quad \log P = 2.2412 - .0004022Y, R^2 = .99^5 \\ (.00001)$$

Comparing the results of equation 1b against the earlier results for family units (equation 6a) indicates that poverty incidence rates for unrelated individuals are much less responsive to general economic growth and progress—*i.e.*, the fit of 1b is not as close ($R^2 = .83$ compared with an $R^2 = .99$ in (6a)), and the slope in 1b is not as steep ($-.0001319$ compared with $-.004022$ in (6a)).

As was done for family units, poverty incidence rates for unrelated indi-

TABLE 3
PERSONAL INCOME PER CAPITA, 1947-63, 1962 DOLLARS^a

1947-55		1956-63	
Year	Amount	Year	Amount
1947	\$1799	1956	\$2195
1948	1803	1957	2195
1949	1763	1958	2163
1950	1880	1959	2238
1951	1921	1960	2269
1952	1970	1961	2293
1953	2035	1962	2371
1954	2004	1963	2425
1955	2117		

^a The deflator employed was the Consumer Price Index shifted to a 1962 base.

SOURCE: Data derived from Council of Economic Advisers, *Economic Report of the President* (Washington: U. S. Government Printing Office, 1966), Tables C-12 and C-43.

viduals were projected to 1970 and to 1980, assuming two different growth rates in per capita personal income—*i.e.*, the relatively high 1947-56 rate of 2.25 per cent and the relatively low 1957-63 rate of 1.5 per cent per year. The equation used to make these projections was (1b). The results of these projections are shown in Table 4. As this table indicates, the degree of relationship between poverty reduction and economic growth for unrelated individuals that has so far existed cannot be expected to reduce their future poverty incidence rate to levels low enough so that one may reasonably emphasize general economic growth as the chief anti-poverty remedy for this part of the poor population.

In short, the analysis of this paper has thus far indicated that, relative to families as a group, unrelated individuals as a demographic category con-

⁵ Chase, *op. cit.*, p. 18.

stitute a poverty "backwash" among which poverty can be expected to become increasingly more concentrated if past relationships are allowed to continue to prevail into the future.

III

Disaggregating Unrelated Individuals into Constituent Subgroups

DISAGGREGATION OF THE UNRELATED INDIVIDUALS into the subgroups of which they are composed reveals results which were similar to those found when family units were divided into groups defined as "majority" and "minority" groups.⁶ This is to say that when regressions were fitted for each of the eight subgroups within the unrelated individual population in order to estimate the responsiveness in their poverty incidence levels to economic

TABLE 4
REGRESSION ESTIMATES OF PERCENTAGE OF UNRELATED
INDIVIDUALS IN POVERTY CLASS, 1970 AND 1980

Year	Regression Estimates	
	1947-56 Growth Rate in Personal Income per Capita	1957-63 Growth Rate in Personal Income per Capita
1970	39.0%	40.8%
1980	31.6	35.8

SOURCE: Data computed from equation (1b).

growth,⁷ the "majority" populations tended in all cases to reduce their level of poverty incidence at faster rates than did the "minorities."⁸ The results

⁶ As we have already referred to unrelated individuals as a "minority" population (*i.e.*, relative to families), then perhaps the subgroups that comprise unrelated individuals should technically be referred to as "sub-minorities" or "sub-majorities," or by some other similar designation. For the sake of clarity, however, we shall continue to use the same nomenclature of simply "majority" and "minority" in referring to the subgroups within the population of unrelated individuals, recognizing, however, that these subgroups are part of a population which is itself a "minority."

The "majority" groups, it will be recalled, were: nonfarm; under 65; white; and males, and the "minorities" were: farm; 65 and over; nonwhite; and females.

⁷ The eight regressions that were estimated took the same form as before, *i.e.*:

$$P = ab^{-X}u,$$

but where P is now the poverty incidence rate for each of the eight subgroups within the population of unrelated individuals, Y is still deflated personal income per capita, and " u " a random error term. The data for P may be found in Table 5, and the data for Y have already been presented in Table 3.

⁸ In that the regression coefficients for the slope of the equations were greater for the "majority" groups than for the corresponding "minority." However, it will be noted that for one "minority," females, the regression fit was better than for the corresponding "majority," *i.e.*, the R^2 was higher (see Table 6).

of these regressions are shown in Table 6 (along with projections for poverty incidence for 1970, assuming the relatively rapid rate of growth in per capita personal income that prevailed between 1947-63). The implication of the data in this table is that among unrelated individuals, as with families, economic growth in and of itself will tend to bring increasing concentration of poverty among "minority" groups. In the case

TABLE 5
POVERTY INCIDENCE^a AMONG UNRELATED
INDIVIDUALS, BY DEMOGRAPHIC GROUPS, 1947-63

Year	Poverty Incidence (percentage poor)							
	Majority Groups				Minority Groups			
	Non-farm	Under 65	White	Male	Farm	65 & Over	Non-white	Female
1947	50.7	44.2	51.8	44.5	70.7	75.0	65.3	61.0
1948	52.0	46.4	53.6	48.5	78.4	77.3	66.4	61.2
1949	51.8	43.0	51.1	44.0	75.1	78.3	64.3	60.8
1950	50.5	42.5	51.6	42.2	73.4	80.1	62.9	61.1
1951	49.3	38.7	50.5	40.7	72.3	80.7	58.1	59.4
1952	46.1	36.5	45.6	36.3	74.1	73.3	60.0	56.6
1953-54 ^b	50.0 ^b	41.3 ^b	50.3 ^b	43.2 ^b	76.7 ^b	73.9 ^b	62.6 ^b	58.7 ^b
1955	48.9	38.2	48.2	40.5	75.4	72.5	61.9	57.1
1956	47.2	37.0	47.2	37.8	67.8	69.3	61.8	55.9
1957	46.3	36.6	45.7	38.1	61.1	69.4	59.0	53.6
1958	47.5	36.8	46.8	39.2	69.4	71.4	59.8	54.6
1959	45.1	35.3	44.6	37.0	76.0	66.4	57.8	52.4
1960	44.8	34.9	43.7	35.5	72.6	67.6	55.2	52.6
1961	44.9	33.5	42.7	34.1	69.1	66.8	59.6	52.2
1962	44.3	34.0	42.8	35.0	66.7	63.5	58.7	51.4
1963	43.5	33.4	42.6	33.7	67.3	62.6	56.6	51.2

^a Poverty incidence defined as the percentage of unrelated individuals in a given demographic group having an annual income of less than \$1,500 in 1962 dollars.

^b Source reports data for 1953 and 1954 as an average for the two years.

SOURCE: Data derived from U. S. Bureau of the Census, *Current Population Reports*, Consumer Income, Series P-60, Nos. 13, 15, 17, 19, 21, 23, 25, 27, 29, 31, 33, 35, 37, 39, 41, and 43, 1947 through 1963.

of unrelated individuals this is tantamount to saying that a "backwash" poverty population within a "backwash" is being generated.

IV

Conclusion

THE ANALYSIS of this paper tends to add further support to what has been

termed the "backwash" proposition. There are groups and subgroups within the poverty population whose ability to take advantage of the opportunities provided by general economic growth and progress is relatively weak. These groups constitute a poverty "backwash" which has the tendency, over time, to become an increasingly larger proportion of our total

TABLE 6
LOGARITHMIC REGRESSIONS^a RELATING GROUP POVERTY INCIDENCE
(DEPENDENT VARIABLE) TO DEFLATED^b PERSONAL INCOME PER
CAPITA (INDEPENDENT VARIABLE), 1947-63, AND
PROJECTIONS OF POVERTY INCIDENCE TO 1970^c
(unrelated individuals)

Group	Intercept log a	log b	Slope (Standard error)	Adjusted R ²	Projected Poverty In- cidence to 1970 Assum- ing 1947-56 Growth Rate in Y (Per Cent)
Nonfarm	1.9083	-.0001108	(.000017)	.72*	44.3
Farm	2.0132	-.0000754	(.000030)	.26**	62.7
Under 65	1.9799	-.0001923	(.000027)	.86*	26.7
65 and over	2.1688	-.0001503	(.000015)	.75*	54.5
White	1.9709	-.0001429	(.000018)	.79*	35.5
Nonwhite	1.9529	-.0000821	(.000018)	.57*	52.1
Female	2.0229	-.0001314	(.000013)	.72**	27.6
Male	1.9761	-.0001855	(.000035)	.87**	44.1

^a The form of the regressions was:

$$P = ab^{-Y}u,$$

where P is the annual poverty incidence rate for each population group, and Y is annual per capita personal income for the U. S. population.

^b Deflated to 1962 dollars.

^c Assuming growth rate in Y equal to that rate that prevailed from 1947 to 1956, *i.e.*, 2.25 per cent per year.

* Significant at the .01 level.

** Significant at the .05 level.

SOURCE: Calculations.

poverty population. As this happens the poverty population can be expected to take on, through time, the characteristics of a "hard-core" group, which implies that the linkage between change in the over-all level of

poverty incidence and the rate of economic growth will tend to become increasingly weaker.

In discussing poverty among "minority" groups, Oscar Ornati, a member of the National Policy Committee on Pockets of Poverty, has aptly summed up the essence and the policy implications of the analysis:

Poverty is (in large part) a structural problem and thus policies to deal with it must be (in large part) structurally oriented. This presents many problems. Many policy makers and economists contend that poverty will be done away with by policies aimed at bringing about full employment. Such policies are necessary prerequisites and have a social and economic priority of their own. But, the elimination or drastic reduction of poverty in America demands additional measures pinpointed to those structural characteristics of the affluent society that have permitted a large pool of underprivileged in the midst of a relatively efficient economy.⁹

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⁹ Oscar Ornati, "The Convergence of Poverty Linked Characteristics," in *Poverty in Affluence*, ed. Robert E. Wills and Harold G. Vatter (New York: Harcourt, Brace and World, Inc., 1965), p. 189.

Foreign Aid Priority: Food Production

AGRICULTURE DEVELOPMENT and the related food/population problem have moved to positions of top priority in the United States' foreign economic assistance program. In the year ahead, the Agency for International Development (A.I.D.) will increase its investment in agriculture to about \$800 million—30 per cent of its total development aid. In addition, in 1968 the United States will commit \$35 million to help family planning efforts abroad.

The report of President Johnson's Science Advisory Committee (P.S.A.C.) stated that the world food problem is capable of solution, but a massive effort, beginning now and continuing for the next 20 years, is required by both the developed and less developed countries if a serious crisis is to be averted.

In the case of India, for example, the P.S.A.C. report estimates that over the next 15–20 years the annual growth rate in agricultural production must be stepped up from the present 3 per cent to 4 or 4½ per cent, and the growth rate in gross national product from the present 4 per cent to a rate of 5 or 5½ per cent. In addition, effective steps must be taken

first to stabilize and then reduce the present rate of growth in population. Our basic objective is not to help the developing countries achieve self-sufficiency in food production. Rather, it is to help the recipient countries develop their economies to the point at which at some future date they can import on commercial terms what they cannot produce economically themselves.

In most cases the primary source of increased agricultural production must be from increased yields on existing cultivated acres. Economically, this means shifting agricultural producers from subsistence farming to a market economy.

A major requirement, which has received continuous emphasis, is to build "adaptive research" facilities in the less developed countries themselves. In the past few years, results have shown that research can radically improve food yields. An example is the success of the International Rice Research Institute in the Philippines in producing high-yielding rice strains. Adaptive research is a continuing process. New varieties to meet new conditions or new requirements are always needed.

Growing more food will avail little, however, if population increase is not controlled. In 1961 only two developing countries had programs to reduce birth rates. In 1967 there were 26. As late as 1963, the United States was spending less than \$2 million to help family planning efforts abroad. In 1968 we committed \$35 million in addition to local currencies. Here, again, while results can not be achieved overnight, the prospects are hopeful. Japan, which once had a seemingly unmanageable problem, has cut its population growth rate to 1 per cent.

In this field, also, research has an important role to play. Right now the limiting factor in executing family planning programs is not the lack of resources, but the lack of knowledge. There is simply not enough known about motivation and effective techniques in family planning and related fields to assure effective use of massive resources in many instances.

No government can escape the stark fact that the success of its development efforts depends upon the balance between population and food and other resources. The United States will not undertake to tell any government how and to what extent population must be limited. At the same time, the United States stands ready to help those governments that recognize the problem and move to deal with it. [From the U.S. Department of State.]

Urbanism and Annexation Attitudes in Two Similar Suburban Areas

By JEROME G. MANIS

THE GROWTH OF SUBURBAN COMMUNITIES in the United States during the twentieth century is now a well-established, demographic datum.¹ Since World War II, however, the trend has been for "greatly increased annexations to incorporated places."² In 1945 only 152 cities with populations of 5000 or over reported annexations.³ The number of annexing cities has since risen to 382 in 1950, 526 in 1955, 712 in 1960, and 751 in 1964.⁴ Yet it has been pointed out that "Survey after survey reports a disinclination of suburbanites to consolidate their governments with the central city."⁵

This discrepancy between survey findings and municipal actions suggests the need for further study of the annexation process. Commonly annexation requires majorities in both the central city and suburban area. The balloting in cities is usually favorable to annexation proposals, less so in the suburbs themselves. Why some suburbs choose annexation while others reject it remains a largely unresolved question.

The general hypothesis of this paper is that urbanized individuals living in suburban areas tend to be favorable toward annexation.⁶ By urbanized is meant prior urban background, favorable attitudes toward urban services, use of urban facilities, urban social behavior, and urban political attitudes.⁷ Each of these characteristics will be discussed below.

¹ John Sirijamaki, *The Sociology of Cities* (New York: Random House, 1964), p. 121.

² Henry S. Shryock, Jr., "What is New in Our Eighteenth Decennial Census of the Population," *Proceedings of the Social Statistics Section* (Washington, D.C.: American Statistical Association, 1958), p. 26.

³ John C. Bollens, "Metropolitan and Fringe Area Developments in 1964," *The Municipal Yearbook*, Vol. 32 (1965), pp. 54-62.

⁴ *Ibid.*, p. 62.

⁵ Robert C. Wood, "The Governing of Suburbia," in *The Suburban Community* (New York: G. P. Putnam's Sons, 1958), p. 167.

⁶ See Jerome G. Manis, "Annexation: The Process of Reurbanization," *American Journal of Economics and Sociology*, Vol. 18 (July, 1959), pp. 353-60.

⁷ Although "urbanization" has been applied to such social processes as concentration and centralization, the concept "urbanized" is used to refer to characteristics of the individual resident—background, attitudes, and behavior. For discussion of the concepts of urbanization and suburbanization, see T. Stanton Diedrich, "Nature and Directions of Suburbanization in the South," *Social Forces*, Vol. 39 (December, 1960), pp. 181-86.

I

Purpose and Method

THE AIM OF THIS PAPER is to report the findings of a survey of residents in two suburbs of the city of Kalamazoo, Michigan. In 1955 the Milwood district of Kalamazoo township, which adjoins the city of Kalamazoo, voted for annexation. In the same election the Westwood district of the township rejected annexation by the city. As may be noted in Table

TABLE 1
POPULATION AND HOUSING CHARACTERISTICS OF TWO SUBURBS (1960)*

CHARACTERISTICS	SUBURBS	
	MILWOOD	WESTWOOD
Total Population	8,129	7,380
Non-White Population	11	21
Foreign Born Population	358	379
Median Age	28.4	28.8
Median Education (persons over 25)	12.3	12.5
Median Family Income	\$7,256	\$7,836
Average Length of Residence in Suburb	9.7 yrs.	8.5 yrs.
Median Value of Housing Unit	\$14,850	\$16,500
Average Age of Housing Unit	16.4 yrs.	13.0 yrs.
Mean Population Per Household	3.42	3.48
Percent of Homes Owner Occupied	88.0	89.8

*U. S. Bureau of the Census, U. S. Censuses of Population and Housing: 1960. Census Tracts. Final Report PHC (1)-69. U. S. Govt. Prtg. Office, Washington, D. C., 1962.

1, the two areas are quite similar in their demographic characteristics. These similarities prompted the present research.

The research focus is upon the relationship between variations in the urban characteristics of suburban residents and their attitudes toward annexation. The hypothesized relationship will be tested with data from

the Milwood survey and replicated by the Westwood survey. Inspection of the two sets of data will reveal whether more urbanized individuals reside in the annexed area than in the unannexed area.

The surveys were conducted in Milwood during April and May of 1963, in Westwood during April and May of 1964. The samples were drawn from listings in a local residential directory, supplemented by listings of new construction. Every seventh household in Milwood, and every sixth household in Westwood, was contacted. Interviews based on a structured questionnaire were made by advanced sociology, anthropology, and social work students enrolled in research courses.

Interviews were sought first from the male head of the household, or, if not present, from the wife or female head. In Milwood, 254 completed interviews were obtained from the complete listing of 336. In Westwood, 291 from 395 listings were obtained. There were 22 refusals and 43 not-at-homes in Milwood (after three calls); 26 refusals and 57 not-at-homes in Westwood. Vacancies, nonresidential listings and incomplete schedules totaled 17 in Milwood, 21 in Westwood.

II

The Research Locale

THE TWO AREAS CHOSEN for study are located in Kalamazoo County, midway between Detroit and Chicago. The population of the county has increased steadily from 7380 persons in 1840, to 44,310 in 1900, 100,085 in 1940, 126,019 in 1950, and 169,712 in 1960. The largest urban area in the county has been the city of Kalamazoo, which grew from 2507 persons in 1850, to 24,404 in 1900, 54,097 in 1940, 57,326 in 1950, and 82,089 in 1960.

A major source of the population increase between 1950 and 1960 was the annexation of several areas during this decade. These annexations occurred following elections in the city of Kalamazoo and the Kalamazoo township, a fringe area surrounding the city. No annexations of populated areas had occurred between 1928 and 1956-57 and none since then.

The annexations which increased the city's population by about 40 per cent resulted in a decline of the township population from 27,252 in 1950 to 20,166 in 1960. The largest shift in population was the annexation of the Milwood district of the township, involving about 7500 persons in 1956. Over a seven-year period the Westwood district rejected annexation in four separate elections (See Table 2). Certain similarities in the two areas, as well as the differences in the annexation movement, suggested the study.

The Milwood district is located in the southeastern part of the city, adjacent to Portage, a recently (1962) incorporated city. Milwood has an area of about 4.2 square miles whose center is about 2.6 miles from the city center. Like Westwood, it is largely residential with several shopping areas.

According to city officials, local residents, and the *Kalamazoo Gazette*, some Milwood residents had actively proposed incorporation of the district

TABLE 2

ANNEXATION VOTING, 1950-1957

Election	Milwood		Westwood	
	No. of Votes	% of Total	No. of Votes	% of Total
November, 1950				
Yes			401	26.0
No			1142	74.0
April, 1955				
Yes	1434	54.8	730	47.6
No	1184	45.2	804	52.4
November, 1955				
Yes	1391	56.9		
No	1051	43.1		
November, 1956				
Yes			1516	49.1
No			1574	50.9
April, 1957				
Yes			800	38.2
No			1293	61.8

as a fourth-class city prior to 1950. Home-rule petitions were filed in May, 1950. However, eight industrial and business firms in the "Panhandle" section of the district had secured a court injunction against their inclusion in the proposed city. Following a court judgment which sustained the injunction, the "Panhandle" was annexed to the city by resolution of the city commission. Although the township sought to overturn the judgment and rescind the annexation, the State Supreme Court sup-

ported the action, largely on the grounds that no registered voter held residence in the area.

During the period residents of the city and the township began a movement to amalgamate the entire area. Early in 1955 petitions were circulated for an election on this issue. Although the voting in April, 1955, resulted in defeat by the township, the Milwood area and several others had been favorable to the annexation. New petitions calling for separate elections in three township areas were circulated soon afterward. In November, 1955, the Milwood area voted for annexation, joining the city in January, 1956. The Milwood school district was annexed to the city school system in an election held in February, 1956.

Popular explanations of the successful annexation of Milwood were varied. These included: the loss of its limited industrial and business tax base; the failure of the incorporation effort; fears of annexation by Portage, its other urban neighbor; need for a senior high school; desire for a public sewer system to replace private septic tanks; dissatisfaction with the street-paving program by the township.

The Westwood district is situated near the northwestern sector of the city. Its area is about 3.2 square miles. The center of the district is about 2.3 miles from the city center. Thus it is smaller than Milwood in area, slightly smaller in population, and a little closer to the city. The Westwood schools joined the city school system in 1946. No other populous area is adjacent to Westwood.

The Westwood district does not appear to have seriously considered incorporation. However, annexation efforts in Westwood occurred prior to those in Milwood. In the first such voting annexation was overwhelmingly defeated in November, 1950. Renewed interest appeared following the township-wide movement during 1955. The failure of the annexation effort for the entire township was marked by a close vote in Westwood. A shift of less than 2½ per cent of its total vote could have resulted in annexation.

Following the successful outcome of the Milwood annexation, Westwood residents initiated another election in November, 1956. A very heavy turnout of voters produced another rejection of annexation, this time by the meager difference of less than 1 per cent of the entire vote. The small margin in this election appeared to stimulate residents to initiate still another election petition.

The election in April, 1957, resulted in a sharp decline both in the number of voters and the percentage of pro-annexation ballots. Since

then no further voting has taken place, nor does there appear to have been any serious effort to propose another election.

Among the various interpretations by local residents of the final outcome of the merger efforts were: fears of higher city taxes resulting from

TABLE 3
RESPONSE TO ANNEXATION QUESTIONS

I. BELIEF ABOUT THE EFFECTS OF ANNEXATION OR REJECTION OF ANNEXATION.

<u>MILWOOD-ANNEXATION</u>			<u>WESTWOOD-REJECTION</u>		
<u>RESPONSE</u>	<u>F</u>	<u>%</u>	<u>RESPONSE</u>	<u>F</u>	<u>%</u>
Very Good	57	22.4	Very Bad	12	4.1
Good	125	49.3	Bad	49	16.9
Neither Good nor Bad	25	9.8	Neither Good nor Bad	31	10.7
Don't Know	27	10.6	Don't Know	53	18.3
Bad	19	7.5	Good	112	38.6
Very Bad	1	.4	Very Good	33	11.4

II. PRESENT ATTITUDE TOWARD DE-ANNEXATION AND ANNEXATION.

<u>MILWOOD-TOWARD DE-ANNEXATION</u>			<u>WESTWOOD-TOWARD ANNEXATION</u>		
<u>RESPONSE</u>	<u>F</u>	<u>%</u>	<u>RESPONSE</u>	<u>F</u>	<u>%</u>
No	201	79.1	For	96	33.0
Undecided	22	8.7	Undecided	55	18.5
Yes	31	12.2	Against	140	48.5

III. ATTITUDE TOWARD RECOMMENDING ANNEXATION TO OTHER AREAS.

<u>MILWOOD</u>			<u>WESTWOOD</u>		
<u>RESPONSE</u>	<u>F</u>	<u>%</u>	<u>RESPONSE</u>	<u>F</u>	<u>%</u>
Yes	156	61.6	Yes	72	24.8
Undecided	50	19.8	Undecided	113	39.0
No	47	18.6	No	105	36.2

IV. BELIEF ABOUT VOTING FOR ANNEXATION OF OTHER AREAS.

<u>MILWOOD</u>			<u>WESTWOOD</u>		
<u>RESPONSE</u>	<u>F</u>	<u>%</u>	<u>RESPONSE</u>	<u>F</u>	<u>%</u>
Yes	164	64.5	For	122	42.4
Undecided	53	20.9	Undecided	106	36.8
No	37	14.6	Against	60	20.8

newly annexed areas; hostility to the "encroaching" city; lack of dissatisfaction with school facilities, resulting from the prior annexation to the school district; lack of community leadership.

This necessarily brief summary of the background and characteristics of the two suburbs provides some indication of the forces which produced

the divergent outcomes. To obtain further understanding of the annexation process, the present research has sought to compare the urban orientations of the residents of the two communities and to assess their influence upon annexation attitudes.

TABLE 4
AGE, SEX, AND STATUS CHARACTERISTICS

Characteristics of Respondents	Frequency and Percentage Distributions							
	MILWOOD				WESTWOOD			
	Percent Pro-Annexation	Percent Neutral	Percent Anti-Annexation	F	Percent Pro-Annexation	Percent Neutral	Percent Anti-Annexation	F
Year of Birth								
Before 1900	61.1	33.3	5.6	36	19.5	36.6	43.9	41
1900-1910	71.1	13.3	15.6	45	22.0	24.0	54.0	50
1911-1920	73.2	14.3	12.5	56	22.4	25.9	51.7	58
1921-1930	76.5	19.8	3.7	81	23.2	25.3	51.5	95
1931 and after	69.4	27.8	2.8	36	14.9	40.4	44.7	47
Sex								
Male	73.4	18.8	7.8	154	20.8	19.5	59.7	154
Female	69.0	23.0	8.0	100	21.3	40.4	38.3	136
Education								
College Graduate	89.6	8.3	2.1	48	41.7	36.1	22.2	72
Some College	75.6	13.3	11.1	45	13.7	31.4	54.9	51
12 Grades	62.5	27.3	10.2	88	17.7	20.8	61.5	96
11 Grades or less	68.5	24.7	6.8	73	8.6	31.4	60.0	70
Income								
\$10,000 and over	82.7	11.5	5.8	52	32.5	21.7	45.8	83
\$8,000 - \$9,999	76.0	22.0	2.0	50	19.4	29.0	51.6	62
\$6,000 - \$7,999	71.8	18.3	9.9	71	18.2	20.0	61.8	55
Under \$6,000	62.3	29.5	8.2	61	13.7	31.4	54.9	51
Occupation								
Professional and Semi-Professional	80.5	17.1	2.4	41	32.8	36.1	31.1	61
Proprietor and Managerial	72.5	20.0	7.5	40	21.0	35.5	43.5	62
Clerical, Sales and Service	72.2	19.0	8.8	79	22.9	21.7	55.4	83
Skilled	64.2	22.6	13.2	53	7.1	26.2	66.7	42
Semi-Unskilled	70.6	23.5	5.9	34	6.9	31.0	62.1	29

III

The Measure of Annexation Attitudes

ATTITUDES TOWARD ANNEXATION were ascertained through four questions: (1) beliefs about the effects of annexation (Milwood) or rejection of annexation (Westwood); (2) attitude toward de-annexation (Mil-

wood) or annexation (Westwood); (3) attitude toward recommending annexation to other suburban areas; (4) willingness to vote for annexation of other areas. The distribution of responses in the two samples for each of the four questions is shown in Table 3.

Favorable responses to each of the questions were combined to form a scale, ranging from 0 to 4. However, an analysis of the items in the scale revealed that the first question alone provided a useful and efficient measure of annexation attitudes. Of the 163 respondents in the Milwood sample who answered at least 3 questions favorably, 157 or 96 per cent had responded similarly to this first question. Of the 63 respondents in the Westwood sample, 50 or 79 per cent had done likewise. For this reason the first question alone has been used throughout the article.

IV

Age, Sex, and Status Characteristics

BEFORE EXAMINING THE RELATIONSHIP of the specific urbanism items to annexation attitudes, several demographic variables merit attention. As table 4 reveals, year of birth of the respondents has an irregular relationship to these attitudes. Nor do men and women differ appreciably or consistently in the two suburbs. The women are slightly less favorable to annexation in the annexed suburb, but are much less anti-annexation in the unannexed area. In other words, women appear less satisfied with the status quo than men in the same suburb.

More important are the stratification indicators—educational, income, and occupational status. The most favorable attitudes correspond to the upper ranges of each measure, though educational level is most relevant. The data are in accord with the Hawley and Zimmer findings that "support for annexation is found primarily among [the] . . . well educated and engaged in the more prestigious white-collar occupations."⁸ However, the findings appear contrary to those reported for high-status suburbs which have resisted "any suggestions of consolidation of suburbs and central city."⁹

V

Urban-Suburban Background and Identification

LENGTH OF SUBURBAN RESIDENCE is irregularly related to annexation

⁸ Amos H. Hawley and Basil G. Zimmer, "Resistance to Unification in a Metropolitan Community," in *Community Political Systems*, ed. by Morris Janowitz (Glencoe: Free Press, 1961), p. 171.

⁹ Richard Dewey, "Peripheral Expansion in Milwaukee County," *American Journal of Sociology*, Vol. 54 (September, 1948), p. 120.

attitudes (Table 5). The most clear-cut finding is the relatively large percentage of neutral responses among the most recent residents, particularly in the unannexed suburb. With longer residence in the areas, much of the decline in neutrality appears as an increase in anti-annexation attitudes.

TABLE 5

Background and Identification	URBAN-SUBURBAN BACKGROUND AND IDENTIFICATION							
	Frequency and Percentage Distribution							
	MILWOOD				WESTWOOD			
	Percent Pro-Annexation	Percent Neutral	Percent Anti-Annexation	F	Percent Pro-Annexation	Percent Neutral	Percent Anti-Annexation	F
Length of Suburban Residence								
4 years or less	72.6	27.4	—	62	18.8	43.8	37.4	.96
5-8 years	76.9	15.4	7.7	52	20.3	23.4	56.3	.64
9 or more years	69.1	19.4	11.5	139	22.9	21.4	55.7	131
Major Prior Residence								
Large City	72.4	24.1	3.5	29	26.7	50.0	23.3	30
Middle Size City	75.4	16.7	7.9	126	21.0	21.0	58.0	124
Small Town	66.1	26.8	7.1	56	17.0	37.7	45.3	53
Suburban	81.8	9.1	9.1	11	22.7	27.3	50.0	44
Farm or Rural	70.0	15.0	15.0	20	28.6	23.8	47.6	21
Previous Residence								
In City	73.0	20.4	6.6	137	19.0	27.9	53.1	147
In Suburbs	71.7	13.0	15.3	46	26.1	17.4	56.5	46
In Other Areas	68.6	25.7	5.7	70	21.9	36.5	41.6	96
Self Identification								
City Person	82.4	14.1	3.5	85	30.0	33.3	36.7	60
Suburban Person	66.9	23.4	9.7	145	16.9	28.4	54.7	183
Rural Person	65.0	25.0	10.0	20	21.9	25.0	53.1	32

The lowest percentage of pro-annexation responses occurs among those who had spent most of their lives in small towns. Otherwise no consistent pattern emerges from the questions concerning major prior residence or immediately previous residence.

When asked to identify themselves as urban, suburban, or rural types of persons, most of the respondents in both areas chose the suburban cate-

gory. In the unannexed area larger proportions of the sample considered themselves to be suburbanites, while less identified with the city type. As predicted, the self-identified city persons in both areas were more favorable to annexation.

TABLE 6
OPINIONS OF URBAN-SUBURBAN SERVICES

Service	Frequency and Percentage Distributions							
	MILWOOD				WESTWOOD			
	Percent Pro- Annexation	Percent Neutral	Percent Anti- Annexation	F	Percent Pro- Annexation	Percent Neutral	Percent Anti- Annexation	F
Schools								
Very Good	76.0	20.0	4.0	100	21.7	30.2	48.1	106
Good	70.2	19.0	10.8	84	23.6	26.4	50.0	72
Other	66.6	23.2	10.2	69	18.9	29.7	51.4	111
Police Protection								
Very Good	77.6	20.4	2.0	49	17.6	23.5	58.9	34
Good	76.3	19.3	4.4	114	21.7	21.7	56.6	115
Other	62.6	22.0	15.4	91	21.4	35.7	42.9	140
Fire Protection								
Very Good	76.5	21.2	2.3	85	13.8	24.1	62.1	58
Good	73.2	18.1	8.7	138	18.1	26.0	55.9	127
Other	51.6	29.0	19.4	31	27.6	36.2	36.2	105
Street Paving Program								
About Right	73.3	17.8	8.9	101	10.8	23.7	65.5	93
Need more paved streets	71.6	18.6	9.8	102	24.1	30.8	45.1	133
Other	68.6	29.4	2.0	51	29.7	32.8	37.5	64
Sewage Disposal Facilities								
About Right	73.4	18.3	8.3	169	7.8	31.1	61.1	90
Need more sewers	78.1	12.5	9.4	32	36.8	24.6	38.6	114
Other	61.5	32.7	7.3	53	14.1	32.9	53.0	85
Treatment by Pub- lic Officials								
Very Well	84.8	15.2	0	33	15.8	7.9	76.3	38
Fairly Well	82.1	8.9	9.0	56	18.3	19.7	62.0	71
Other	70.9	16.4	12.7	110	29.6	26.8	43.6	71
Don't Know	54.5	43.6	1.9	55	18.5	45.4	36.1	108
Property Taxes								
About Right	81.7	15.9	2.4	126	24.3	20.5	55.2	185
Too High	63.6	20.6	15.8	107	14.3	34.9	50.8	63
General Satisfac- tion with area								
Very satisfied	77.5	18.0	4.5	111	19.1	26.4	54.5	178
Satisfied	69.4	21.3	9.3	108	27.6	34.2	38.2	76
Other	58.8	26.5	14.7	34	16.7	33.3	50.0	36

VI

Opinions of Urban-Suburban Services

A COMMON EXPLANATION of the annexation movement is that it is based

upon the desires of suburban residents for improved schools, police and fire protection, streets, sewers, and other urban services. Table 6 reports the opinions of the respondents concerning these services. For most of the items, the residents of the annexed area have the most favorable opin-

TABLE 7
URBAN-SUBURBAN SOCIAL BEHAVIOR

Urban-Suburban Group Behavior	Frequency and Percentage Distributions							
	MILWOOD				WESTWOOD			
	Percent Pro- Annexation	Percent Neutral	Percent Anti- Annexation	F	Percent Pro- Annexation	Percent Neutral	Percent Anti- Annexation	F
Place of Work								
In City	69.7	19.7	10.6	152	21.6	28.1	50.3	171
Within Suburb	83.3	12.5	4.2	24	11.2	44.4	44.4	18
Other Areas	71.8	23.9	4.3	71	21.8	27.7	50.5	101
Church Attendance								
In City	75.2	18.6	6.2	129	21.6	29.2	49.2	171
Within Suburbs	73.9	14.5	11.6	69	20.0	30.0	50.0	70
Other Areas	53.8	38.5	7.7	13	9.1	27.3	63.6	11
Non-Members	62.8	30.2	7.0	43	21.1	28.9	50.0	38
Residence of Friends								
In City	79.5	16.2	4.3	117	22.8	33.7	43.5	92
Within Suburbs	69.4	21.0	9.6	62	22.4	31.0	46.6	58
Other Areas	61.3	26.7	12.0	75	19.6	25.4	55.0	138
People Known in Suburb								
Very Many	76.3	15.8	7.9	38	20.9	18.6	60.5	43
Many	75.7	16.2	8.1	111	22.3	23.2	54.5	112
Some	67.7	23.1	9.2	65	22.4	32.8	44.8	58
Few or None	62.5	32.5	5.0	40	17.1	40.8	42.1	76
Organizational Mem- bership in Suburb								
None	70.6	21.1	8.3	194	16.3	33.2	50.5	208
One	73.7	18.4	7.9	38	37.1	16.1	46.8	62
Two or More	77.3	18.2	4.5	22	22.2	27.8	50.0	18
Organizational Mem- bership in City								
None	67.4	25.2	7.4	135	15.0	32.7	52.3	147
One	77.4	17.7	4.9	62	20.8	22.2	57.0	72
Two or More	75.4	12.3	12.3	57	34.3	26.9	38.8	67

ions of their own facilities. Residents in the unannexed suburb were comparatively least satisfied with their sewer services and more inclined to consider their taxes "about right." They were also more apt to be "very satisfied" with their area as a place to live.

In the annexed area, as expected, satisfaction with certain urban services (schools, police and fire protection), treatment by public services, opinions about taxes, and general satisfaction with their area are linked with pro-annexation attitudes. However, satisfaction with street and sewer facilities is not associated with these attitudes.

The relationships between services and attitudes are less consistent in the unannexed area. The absence of relationship between the opinions of schools and annexation attitudes may lie in the fact that their schools are part of the city school system. Lower levels of satisfaction with police and fire protection, streets, sewers, and treatment by public officials are associated with pro-annexation attitudes. The large number of residents who reported a "need for more sewers" appears as the most influential factor in the pro-annexation view. More of the unannexed residents were satisfied with their taxes, but surprisingly these respondents were more annexation-minded than the dissatisfied residents.

VII

Urban-Suburban Social Behavior and Facility Usage

AS TABLE 7 SHOWS, both sets of respondents have closer social ties to the city than to their area of residence. Although they report many acquaintances in their suburb, they are more apt to have friends, to work, to attend church, and to belong to organizations within the city.

The effect of differing social contacts upon attitudes toward annexation is not particularly notable. Urban employment appears least related to these attitudes, while none of the other urban behavior attitude patterns is comparable for the two areas. The inconsistency of these findings lends little support to the general hypothesis of the research.

By comparison, the usage of urban facilities (Table 8) is more closely and consistently related to pro-annexation attitudes. Of these items, the use of the downtown library and approval of the downtown mall is most closely associated with favorable attitudes toward annexation.

VIII

Political Attitudes

SINCE ANNEXATION INVOLVES CHANGES in governmental boundaries, a series of questions concerning political attitudes were included (see Table 9). The assumption was that Democratic-liberal attitudes reflect a more urban orientation. However, few respondents in either area admitted Democratic or liberal identifications, favored use of federal funds for

urban renewal, or approved a state income tax proposal. The liberal position, nevertheless, was more common in the case of the Medicare and Civil Rights bills.

The relationship of these political positions to annexation attitudes is

TABLE 8
URBAN-SUBURBAN FACILITY USAGE

Facility Usage	Frequency and Percentage Distribution							
	MILWOOD				WESTWOOD			
	Percent Pro-Annexation	Percent Neutral	Percent Anti-Annexation	F	Percent Pro-Annexation	Percent Neutral	Percent Anti-Annexation	F
Shopping for Groceries								
In City	74.7	18.7	6.6	75	29.0	25.8	45.2	31
Within Suburb	72.7	18.6	8.7	161	20.4	29.0	50.6	245
Other Areas	47.1	47.1	5.8	17	18.2	45.5	36.3	11
Downtown Shopping								
Monthly or oftener	75.2	20.0	4.8	165	24.1	29.2	46.7	216
Less than monthly	65.9	20.5	13.6	68	11.8	30.9	57.3	68
Discount Store Shopping								
Monthly or oftener	72.2	23.1	4.7	108	25.0	24.0	51.0	100
Less than monthly	71.6	17.7	10.7	141	19.1	32.0	48.9	178
Downtown Library								
Monthly or oftener	85.4	12.2	2.4	82	22.5	32.4	45.1	111
Less than monthly	66.1	23.6	10.3	165	20.2	26.8	53.0	169
Opinion of Downtown Mall								
Strongly Approve	84.9	15.1	—	73	32.1	29.6	38.3	81
Approve	73.3	21.0	5.7	105	15.7	36.4	47.9	140
Other	56.6	25.0	18.4	76	17.6	14.7	67.7	68

not consistent. Party preference does not differentiate, although independent voters were least favorable to annexation. Conservative-liberal differences were not consistent for the two areas.

Opinions concerning federal spending for urban redevelopment were linked to annexation attitudes in the expected direction. This was also true of attitudes toward the state income tax. Attitudes toward Medicare

were incongruent, if not contradictory, with the other findings. The question on the Civil Rights Bill, asked only in the unannexed area, produced the expected findings.

TABLE 9
POLITICAL ATTITUDES

Attitudes	Frequency and Percentage Distribution							
	MILWOOD				WESTWOOD			
	Percent Pro- Annexation	Percent Neutral	Percent Anti- Annexation	F	Percent Pro- Annexation	Percent Neutral	Percent Anti- Annexation	F
Party Identification								
Republican	78.5	13.8	7.7	130	22.7	25.0	52.3	128
Democrat	70.6	21.6	7.8	51	26.1	28.3	45.6	46
Independent or Other	59.7	31.9	8.4	72	17.2	33.6	49.2	116
Political Orientation								
Conservative	79.0	17.0	4.0	100	21.2	24.2	54.6	99
Liberal	81.8	15.2	3.0	33	30.2	16.3	53.5	43
Other	62.8	24.8	12.4	121	17.7	36.1	46.2	148
State Income Tax								
Favorable	82.2	13.3	4.5	45	46.6	22.4	31.0	58
Don't know								
-Uncecided	64.3	28.6	7.1	28	13.2	52.8	34.0	53
Unfavorable	70.0	21.1	8.9	180	16.0	24.3	59.7	169
Use of Federal Funds								
Favorable	81.4	15.7	2.9	70	24.8	32.1	43.1	109
Don't know								
-Uncecided	54.9	39.2	5.9	51	18.6	37.3	44.1	60
Unfavorable	72.9	15.8	11.3	133	18.5	22.7	58.8	119
Medicare Bill								
Favorable	68.0	24.2	7.8	128	21.9	29.0	49.1	155
Don't know								
-Uncecided	73.5	20.6	5.9	34	11.1	40.0	48.9	45
Unfavorable	76.9	14.3	8.8	91	24.7	23.6	51.7	89
Civil Rights Bill								
Favorable					27.6	30.3	42.1	145
Don't know								
-Uncecided					12.6	32.2	55.2	87
Unfavorable					16.4	23.6	60.0	55

IX

Anomie

THE INCONCLUSIVE FINDINGS already evident after the data from the annexed area were obtained suggested the need for further exploration. It was noted that the least favorable attitudes toward annexation were

found among the low-status respondents, among those of independent political identification, those who knew fewest people in the suburb, those

TABLE 10

ANOMIE (WESTWOOD)

Anomie Items	Frequency and Percentage Distribution			
	Percent Pro- Annexation	Percent Neutral	Percent Anti- Annexation	F
Powerlessness				
Agree	12.7	27.3	60.0	55
Don't know-Undecided	11.8	44.1	44.1	34
Disagree	24.8	27.2	48.0	202
Live for Today				
Agree	17.9	26.8	55.3	56
Don't know-Undecided	—	25.0	75.0	4
Disagree	22.1	29.9	48.0	231
Life Getting Worse				
Agree	9.8	22.0	68.2	41
Don't know-Undecided	26.9	34.6	38.5	26
Disagree	22.3	29.9	47.8	224
Unfair to Bring Children Into the World				
Agree	15.4	30.8	53.8	26
Don't know-Undecided	23.5	35.3	41.2	17
Disagree	21.5	28.7	49.8	247
Can't Count on Anyone				
Agree	14.1	28.2	57.7	71
Don't know-Undecided	19.0	42.9	38.1	21
Disagree	23.6	28.1	48.3	199

who belonged to no organizations, and those who frequently expressed indefinite positions. These tendencies suggested the hypothesis that anomie individuals are less favorable to annexation.

Table 10 reports the findings for the five questions taken from Srole's anomie study.¹⁰ Though the variations are slight, all of the items support

¹⁰ Leo Srole, "Social Integration and Certain Corollaries: An Exploratory Study," *American Sociological Review*, Vol. 21 (December, 1956), pp. 709-16.

the hypothesis. Nevertheless, the findings here, as elsewhere, do little to clarify the differences in individual attitudes toward annexation.

X

Conclusion

THE GENERAL HYPOTHESIS that urbanized persons are more favorable to annexation received only partial, limited confirmation in the two areas studied. More support to the hypothesis was found from the data in the annexed area than in the unannexed area. Brevity of suburban residence, prior residence in a large city, self-identification as a city person, favorable attitudes to public officials, schools, police and fire services, usage of downtown library, and favorable attitudes toward the downtown mall, toward usage of federal funds, and toward a state income tax were linked to pro-annexation attitudes. However, their influences were modest. Nor did these factors serve to account for the differences between the two communities.

The absence of clear-cut findings to support the hypothesis and to explain the divergent outcomes of the annexation process merits further consideration. If differences in individual characteristics do not adequately account for the resulting attitudes and actions, we may conjecture about the social-structural patterns of the two suburbs. Variations in community leadership or power may be particularly relevant.

The concept of mass behavior provides an alternative, or supplementary, interpretation. It may be contended that the suburbanite, like the urbanite, has minimal social ties to either suburb or city. In the unannexed area an earlier study revealed few close friendships, little identification with the area, and scant discussion of local issues with neighbors.¹¹ The present data have shown that more residents in both areas work, attend church, have friends, or belong to organizations in the central city than their suburban area. Under these cross-pressures the suburban residents may act on the basis of shifting and unstable moods, influences, or issues.

Such actions are more apt to occur under the conditions which Louis Wirth has attributed to mass society.¹² Among the specific characteristics of mass society which appear to be applicable to this suburban locale are: absence of common customs or traditions, unorganized aggregates of individuals, and anonymity of political behavior. The wide fluctuations of

¹¹ Jerome G. Manis and Leo C. Stine, "Suburban Residence and Political Behavior," *Public Opinion Quarterly*, Vol. 22 (Winter, 1958-59), pp. 483-89.

¹² Louis Wirth, "Consensus and Mass Communication," *American Sociological Review*, Vol. 13 (February, 1948), pp. 2-4.

the annexation votes in the unannexed area may stem from the lack of stable norms to guide the process of decision making.

A suburban area which does not foster community ties or provide satisfactory urban services is apt to survive in a state of precarious political equilibrium. While residents are not greatly attracted to the possibility of merger, they may be readily susceptible to the shifting pressures of expediency. A major increase in the tax rate, a decline in the quality of the street-paving program, or the emergence of an active leadership group can readily swing the balance toward annexation.

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On Monsignor Ligutti's Golden Jubilee

OUR COLLEAGUE AND FRIEND for many, many years, the Right Rev. Monsignor Luigi G. Ligutti, celebrated on September 17, 1967 the golden jubilee of his ordination to the priesthood of the Roman Catholic Church. He returned to his former parish, the Church of the Assumption, in Granger, Iowa, to offer a solemn mass of thanksgiving.

Certainly he had occasion to thank God for the opportunities he has had to use his unique talents on behalf of the poor, the victims of social injustice, the families who make their living on the land—indeed, of all men. But all those who have been blessed by acquaintance with this saintly man and who have drawn inspiration from his example, guidance from his wisdom and courage from his leadership had occasion to thank God for Monsignor Ligutti's career too.

Monsignor Ligutti was born March 21, 1895 in the province of Udine, Italy. He came to the United States in 1912, enrolled at St. Ambrose College, Davenport, Iowa, and after completing his preparatory studies he studied for the priesthood at Mount St. Mary's Seminary in Emmitsburg, Md. There a dedicated professor of social ethics inspired him to devote his life to crusading for social justice.

He was ordained to the priesthood in Des Moines, Iowa, in 1917 and from 1918 to 1920 he was teacher of Latin, Greek and history at Dowling High School in Des Moines. His first pastorate was at Woodbine, Iowa. After serving there for six years, he was appointed in 1926 as pastor at Granger, Iowa.

When the great depression struck in 1929 it caused great unemployment among his parishioners, many of whom were miners. To help them help themselves, he organized in 1933 the Granger Homesteads, so that his families would have one foot on the land while keeping the other in

industry. The community proved a great success and Monsignor Ligutti became nationally known.

He had been active in the National Catholic Rural Life Conference since its founding and in 1937 he was elected president. In 1940 he was appointed its executive secretary. He built up the organization and helped to organize similar organizations in other countries. In 1949 he was appointed executive director and in the same year he was called to Rome to serve as the Official Permanent Observer of the Holy See with the United Nations Food and Agriculture Organization. In 1958 he was named the conference's director for international affairs. He was made a prothonotary apostolic in 1965.

During the second Vatican Council Monsignor Ligutti served as peritus (expert) for three commissions, those on the apostolate of the laity, on the government of the dioceses and on schema 13.

On the day of his anniversary Pope Paul VI sent him a message:

"To our beloved son, Luigi G. Ligutti, our domestic prelate and Permanent Observer of the Holy See to the United Nations Food and Agriculture Organization, on the joyous occasion of the fiftieth anniversary of his ordination to the priesthood, we express our cordial felicitations and while publicly thanking him for his long years of dedicated service to the Holy See, we are happy to impart to him our apostolic benediction in pledge of abundant heavenly graces upon him personally and upon his ministry."

His has been an active life, in the papal diplomatic service, in promoting aid to farmers in many parts of the world, in organizing farmers to defend their interests in various parts of the world. But he has nevertheless found time for scholarship in the fields of rural life, land reform, cooperatives and agricultural development. He has taken part in the work of the *American Journal of Economics & Sociology* since its founding and has aided many another scholarly enterprise in the fields of sociology and rural life. He has published several books in these fields.

The Most Rev. Giovanni Benelli, acting Papal Secretary of State, in conveying to Monsignor Ligutti a signed photograph and chalice from the Holy Father, wrote:

"To this complimentary manifestation of sovereign kindness I am exceedingly pleased to join my warmest congratulations, in the hope of continuing to count for a long time on your efficient collaboration in problems that are so harrassing and at times so difficult."

So say we all. And when the author of the efficiency joins with it one of the most amiable and gracious personalities achieved by the Creator, we say it, as we are sure the Vatican officials do, with heartfelt fervor.

WILL LISSNER

The Short-Run Economic Effects of Corporate Taxation

By GURCHARAN S. LAUMAS

Introduction

THE PURPOSE OF THIS PAPER is to focus attention on the short-run effects of corporate tax rate increases on the price level of corporate goods and services. Subsidiary effects on the non-corporate sector and the general price level which may occur in the long run are, therefore, ignored.

For a long time many economists accepted the hypothesis that the corporation income tax cannot be shifted in the short run. This conclusion is based on the analysis of the tax shifting process within the framework of the neoclassical theory of the firm. With the help of this theory it is possible to demonstrate that if a firm is maximizing its before-tax profits, the imposition of or a change in the statutory rates of a corporation income tax gives the firm no reason to change its product price. Neither marginal cost nor marginal revenue is affected by the tax, hence price and output adjustments are not advantageous. The argument holds irrespective of the form of competition in the product market so long as the point of profit maximization occurs at the equality of marginal cost and marginal revenue.

In recent years several empirical studies¹ of the behavior of corporations with respect to the tax were made. These studies have predominantly demonstrated that the corporation income tax is fully shifted—even over-shifted. Thus if we review the current literature on the incidence and shifting of the corporation income tax, we discover indications that there is now a general acceptance that a substantial part of the tax is shifted forward. An important implication of the 100 per cent forward shifting of the tax is that the prices of corporate goods and services are increased by enough to pass on the tax to consumers. The corporate rate of return on investment is not adversely affected. If the tax is shifted by less than

¹ See Marian Krzyzaniak and Richard A. Musgrave, *The Shifting of the Corporation Income Tax: An Empirical Study of Its Short-Run Effect upon the Rate of Return* (Baltimore: The Johns Hopkins Press, 1963); Karl W. Roskamp, "The Shifting of Taxes on Business Income: The Case of West German Corporations," *National Tax Journal*, Vol. 18, No. 3 (September, 1965), pp. 247-57; Gurcharan S. Laumas, "The Shifting of the Corporation Income Tax—A Study with reference to Indian Corporations," *Public Finance/Finances Publique*, L, No. 4, 1966, pp. 462-73; Robert W. Kilpatrick, "The Short-Run Forward Shifting of the Corporation Income Tax," *Yale Economic Essays*, (Fall, 1965), pp. 354-420.

100 per cent, the burden of the tax is shared by the corporations and the consumers. Partial tax shifting not only reduces the corporate rate of return but also leads to an increase in the prices of corporate goods and services. Generally speaking, the degree of tax shifting would be higher during periods of high incomes and employment when corporations could make effective use of their market power. It is also during this period that economists advocate an increase in corporate tax as a countercyclical measure. It is thus important to make an appraisal of the effects of corporate tax on the level of economic activity and prices.

We shall assume that the economy is at full employment equilibrium and that this equilibrium is disturbed by an increase in the corporate tax rate. Since a major objective of budget policy is to stabilize the level of economic activity, the following cases are analyzed, assuming alternatively constant or increased government expenditures in *real* terms.

I

Zero Forward Tax Shifting, Constant Government Expenditures

THE INCREASED TAX LIABILITY reduces corporate profits and the rate of return on invested capital. If people expect the tax increase to be permanent, their inducement to invest will be adversely affected, leading to a reduction in corporate investment. Initially, the tax increase does not affect the price level and consumer expenditures on corporate goods and services stay the same in both money and real terms.² On the other hand, if government expenditures are held constant in real terms, a budget surplus will result.³ Because of decline in investment, aggregate effective demand would be less than the supply, which under flexible prices may lead to a price reduction to clear the markets. However, there may be downward price rigidity and the markets are not cleared. In that event the economy will face decline in incomes, output, and employment. With declining incomes, tax liability will decrease, but the original losses are not recouped and the economy faces a declining process.

II

Zero Forward Tax Shifting, Increased Government Expenditures

GIVEN DOWNWARD RIGIDITY in prices and hence a constant price level, government expenditures are increased in money terms in order to increase real purchases by such an amount that the economy is brought back to

² This assumes that stockholders do not reduce their consumption even though net corporate profits have, and dividends may have, been reduced.

³ Or if there was a budget deficit before the tax increase, the additional tax revenue will reduce the size of this deficit.

full employment. As in the preceding case, we shall assume here that consumer expenditures remain constant in both money and real terms.

If there was a balanced budget before the tax increase, now a deficit,⁴ balanced, or a surplus budget would result, depending on whether the decline in private expenditures is greater than, equal to, or less than the additional tax yield. However, an upward pressure on prices will result if the supply of additional goods and services purchased by the government is less than infinitely elastic.

III

Full Forward Shifting, Constant Government Expenditures

SINCE THE TAX is fully shifted, corporate profits and rates of return are not affected, and *initially* there are no adverse repercussions on the inducement to invest. However, full shifting of the tax would lead to a rise in prices. Now there are two possibilities regarding the effect of the rise in prices on consumer expenditures.

(a) If consumer expenditures remain constant in *money* terms, with higher prices, the consumers will be able to purchase a smaller quantity of goods and services. The total revenue received by corporations from the private sector remains the same as before the tax change, but there is now a surplus of goods. On the other hand, government expenditures must be increased in money terms in order to maintain real purchases. Total revenue (private plus public sectors) received by corporations will be greater than before the tax increase which is the result of the initial price increase (due to forward tax shifting) and not the cause of it. However, the corporations are left with unsold goods and services. Now an interesting situation arises.

Corporate profits when computed on the basis of higher prices become inflated and lead to a rise in the corporate rate of return. If the investment function is such that it is positively correlated with current rate of return, the corporations may be induced to invest more. We shall call this the "investment effect" of tax shifting. On the other hand, corporations are left with unsold goods and services which should lead them to cut production and employment. In such a conflicting situation nothing definite can be said as to whether "their pockets will ultimately overcome their prejudices," even though the prosperity which is enriching them is "artificial," "illusory," and "unsound,"⁵ or whether the corporations will

⁴ If a deficit results, we assume that additional finance is provided by the printing press, thus avoiding the complications of the effects of debt policy.

⁵ A. P. Lerner, *The Economics of Control* (New York: The Macmillan Company, 1944), p. 321.

see through the operation of real forces and cut back production and employment. In a dynamic economy the outcome will depend upon the operation of various other factors not accounted for or assumed constant in our analysis.

(b) A second possibility is that consumers increase their expenditures by reducing current savings or by drawing down accumulated reserves, thereby maintaining their real purchases. This amounts to validating the shifting of the tax by the corporations. Government expenditures, as in the previous section, are increased in money terms to maintain real purchases. The economy is again back at full employment, but aggregate expenditures in money terms (private plus government) are now greater than before the tax increase, and a situation similar to that described in the previous section arises with the difference that now there is full employment and absence of any unsold goods and services. The corporations may now be induced to invest more. However, given the limitations of full employment, this will lead to a secondary increase in prices, and the economy may face an inflationary process.

IV

Full Forward Shifting, Increased Government Expenditures

WE MAY USE the analysis presented under III(a) and III(b) to analyze this case.

(a) If private expenditures remain constant in money terms and government expenditures are increased in real terms to bring the economy back to full employment, it can be seen that a situation similar to the one described in case III(b) will arise, with the difference that now the deficiency in real effective demand is made up by the government. A further upward pressure on prices would result if the supply of additional goods and services purchased by the government is less than infinitely elastic.

(b) The consumers may, however, decide to maintain their real purchases. In that event, money expenditures would rise because of higher prices due to forward tax shifting. If at the same time government expenditures also increase in money terms to increase real purchases, it can be easily seen that money expenditures would be higher than they were before the tax increase. As in case III(b), the corporate rates of return will increase, leading to an increase in investment demand. The economy is again at full employment, but it will face an inflationary process—more pronounced than in case IV(a)—which originates from at least four distinct factors: original price increase due to tax shifting, secondary price increase if the actual aggregate money expenditures are greater than the

money expenditures corresponding to full employment calculated at the tax-shifted higher price, a further increase because the supply of additional goods and services to the government may be inelastic, and a still further increase in prices due to an increase in investment demand.

V

Partial Tax Shifting, Constant Government Expenditures

PARTIAL TAX SHIFTING would not only *initially* reduce the rate of return on investment and the inducement to invest but would also lead to a rise in prices, depending upon the degree of tax shifting.

(a) With constant consumer expenditures in money terms, the consumers are able to buy a smaller quantity of goods and services. Because of adverse effects on the inducement to invest, investment expenditures may decrease. On the other hand, government expenditures are increased in money terms to maintain real purchases. A situation which is a mixture of case I and III(a) arises. Since total money receipts of corporations (consumer plus government expenditures) are increased, the "investment effect" on the corporate rate of return and inducement to invest is present, though to a lesser degree than in III(a) because prices did not increase by as much due to partial tax shifting. This is, however, compensated for by a smaller amount of unsold goods and services compared to case III(a). Whether the economy will again reach full employment depends on whether the "investment effect" is strong enough to overcome the initial reduction in investment suffered due to partial tax shifting.

(b) With consumer expenditures fixed in real terms, money expenditures would have to increase. Government would also have to increase money expenditures to maintain real purchases. We thus have a situation similar to the one in III(b) except for the initial reduction in investment due to partial tax shifting. If the additional investment due to the "investment effect" is greater than the initial reduction in investment, the economy will not only reach full employment, but a secondary rise in prices may also occur due to increased investment demand, though less than in III(b).

VI

Partial Tax Shifting, Increased Government Expenditures

(a) If consumer expenditures are fixed in money terms, the ultimate result for this case is similar to that of case V(b) with the difference that now the government, rather than the consumers, increases expenditures in real terms.

(b) Fixed consumer and increased government expenditures in real

terms will lead to a situation similar to IV(b), except for the initial reduction in investment due to partial tax shifting. The end result will appear similar to VI(a) except that now it is magnified in the direction of inflation.

VII

Conclusion

THE ANALYSIS SHOWS that in all the cases presented an increase in the corporation income tax rate would disturb the initial full employment equilibrium. To bring the economy back to full employment, government and/or private expenditure patterns had to be changed. Except for cases I and II, in all other cases, the prices also increased. In cases I and II, it is shown that with constant prices (assuming downward rigidity) the economy faces declining incomes, employment, and output.

If we accept the hypothesis that the whole or a part of the tax is shifted, we are faced with the inevitable conclusion that tax increases would lead to price increases. The traditional conclusion about the effectiveness of contracyclical corporate tax rate increases is based on at least two strict assumptions, namely, zero forward tax shifting, and flexible prices. If we impose the second condition in our case I, it can be seen that in the short run the economy will come back to full employment at a lower level of prices.

One may doubt the validity of the two assumptions above in a United States type of economy. If prices have downward rigidity, and there is some tax shifting, the effectiveness of contracyclical tax rate increases is reduced almost to the point where these may rather have just the opposite effect. This must be the case in the short run barring strong consumer resistance to buy corporate products. Even in this limiting case the consumers may have to direct their expenditures on the goods and services produced by the non-corporate sector. If this happens, then in the short run prices of non-corporate goods would have to increase unless their supply is infinitely elastic.

Kent State University

No License for Mutiny

THE UNITED STATES OF AMERICA is a nation which was conceived in dissent and born in revolution. History books abound with examples of the courage and defiance of our patriots in the face of powerful majorities. That history has proved them right is a great lesson to be learned—*today's heresy may well be tomorrow's truth*. Nevertheless, this quest for tomorrow's truth *cannot* be a license for wholesale mutiny. [From an address.]

KENNETH B. KEATING

New York State Court of Appeals

Discrimination, Subculture, and the Economic Performance of Negroes, Puerto Ricans, and Mexican-Americans

By MARTIN T. KATZMAN*

Introduction

IN TWO EARLIER PAPERS we developed an econometric model to explain ethnic differences in economic performance.¹ While the model explains a considerable proportion of the variance among groups, its predictions about the achievement of urban racial minorities are substantial overestimates. Although racial discrimination may account for part of the underachievement of Negroes, Puerto Ricans, and Mexican-Americans, the subculture of these groups and discrimination against this subculture may also contribute.

I

Concepts

BY THE subculture of a group we mean "its characteristic orientation toward experience—its design, or pattern or form of living."² It is quite plausible that the subcultural differences among groups—*e.g.*, attitudes toward present versus future gratification, work versus leisure, pecuniary versus nonpecuniary job benefits, education, fertility, etc.—may generate differences in economic performance. Furthermore, a group's subculture may influence the attitudes of outsiders toward the group. The feelings of outsiders toward the objective subculture of a deviant group we may call *class discrimination*.³ While class discrimination is contingent upon subcultural behavior patterns, *ethnic* and *color discrimination* are contingent upon ascribed membership in a nationality or upon physical characteristics, "racial" traits.

* The study reported above was sponsored by the Committee on Urban Economics of Resources for the Future, through the Institute of Government and Public Affairs, UCLA, and the Division of Social Sciences, University of California, Irvine. I am especially indebted for many insights to Martin Levin, of Irvine, with whom a study of ethnic groups is being undertaken. The views expressed are my own and not necessarily those of the university or my sponsors.

¹ "The Economic Differences Among American Ethnic Groups," OR-105; "The Economic Performance of American Ethnic Groups: Age and Generational Effects," OR-109, Institute of Government and Public Affairs, UCLA.

² Alfred Kroeber and Clyde Kluckhohn, *Culture*, Harvard Peabody Museum Papers, Vol. 47, No. 1, 1952, pp. 357-65.

³ These useful distinctions come from Martin Levin. For a refined conceptual analysis of prejudice, see Martin Meyerson and Edward C. Banfield, *Politics, Planning and the Public Interest* (New York: Free Press, 1955), pp. 103-4.

The distinction between class and racial discrimination has crucial policy implications. When discrimination is based on class, a group may escape its effects by changing its behavior. When color discrimination exists, its victims have no such easy escape. Below we attempt to distinguish between the effects of subculture and class discrimination, on the one hand, and ethnic and color discrimination, on the other.

II

Tests

1. *White and Negro Puerto Ricans: color discrimination*

The Puerto Ricans of New York (population 176,000 in 1950) provide

TABLE 1

ECONOMIC PERFORMANCE OF WHITE AND NEGRO PUERTO RICAN
MALES IN NEW YORK METROPOLITAN AREA, IMMIGRANTS
AND THEIR CHILDREN, 1950

	a	b	c	d	e	f
	Negro	gross white	% dif- ference*	Negro	adjusted white	% dif- ference
1. % completing high school	9.9	11.3	—	—	—	—
2. % unemployed	20.9	16.3	22.0	13.3	8.4	36.8
3. % professional	2.4	2.6	7.7	0.6**	0.7**	—
4. % clerical-sales	8.9	10.0	11.0	7.8	7.9	1.2
5. median income	\$1,513	\$1,657	8.7	-951	-799	18.9

SOURCE: U.S. Census, 1950, Special Report 3D, Table 5.

* difference $\frac{\text{Negro-white}}{\text{white}} \times 100.0\%$

** not significant at .05, two tail

a test of the effects of color on economic performance. In 1950 about 8 per cent of this group was classified by the census as Negroes, who presumably share a common subculture with white Puerto Ricans. A comparison of gross performance between the two color groups shows that Negroes achieve about 8 to 22 per cent less (Table 1, a-c). When performance is adjusted for the influences of opportunity, education, and age,⁴ we find that Negroes still achieve less than whites of the same ethnic group (Table 1, d-f). We can plausibly attribute 37 per cent of the especially severe underemployment and about 19 per cent of the under-

⁴In the exploratory studies (cited in note 1), we established the mathematical relationship between urban opportunities, group educational characteristics, and age composition, on the one hand, and economic performance on the other.

payment of Negro Puerto Ricans to color discrimination. On the other hand, there seem to be only minor color differences in Puerto Ricans' ability to obtain white-collar employment, which they do more often than predicted by the econometric model. From these data we cannot separate the effects of subculture, class discrimination, and ethnic discrimination on the low incomes and high unemployment rates of all Puerto Ricans.

2. "Anglo" and Puerto Rican Negroes: subcultural effects

A comparison of Puerto Rican-born and non-Puerto Rican (or Anglo) Negroes in the New York area permits a test of the effects of subcultural differences, when color is held constant. *Ceteris paribus*, performance

TABLE 2
ECONOMIC PERFORMANCE OF PUERTO RICAN-BORN AND
NON-PUERTO RICAN NEGRO MALES IN NEW YORK
METROPOLITAN AREA, 1950

	a	b	c	d	e	f
	gross		% dif-	adjusted		% dif-
	P. Rican	non-P.R.	ference	P. Rican	non-P.R.	ference
1. % completing high school	20.0	21.5	-7.0	—	—	—
2. % unemployed	23.3	11.4	-104.0	13.4	4.8	-64.0
3. % professional	5.1	3.1	+64.5	1.3	-1.8	238.0
4. % clerical-sales	21.5	11.8	+82.3	11.1	0.5	95.5
5. \$ median income	\$1,339	\$1,690	-20.7	-1,192	-774	-37.7
6. % managerial	3.8	4.4	13.6	4.1	4.7	9.8

SOURCE: U.S. Census, 1950, Special Report 3C, Table 20; 3D Table 5.

+ Puerto Ricans perform better than Anglos.

- " " " worse " " .

patterns of the two Negro groups are quite different. Puerto Ricans are less adept at securing high wages and employment than the Anglos but more entrepreneurial and more successful in obtaining white-collar jobs. The low percentage of Anglos in the white-collar occupations does not reflect color discrimination alone. Conceivably some of the difference between the two groups may reflect ethnic discrimination, as they may be distinguished by visible cultural differences—e.g., language, name, religion, etc. The data, however, are quite consistent with hypothesized cultural differences among the two groups and the broader society.

3. West Indian-born and native-born Negroes: subcultural effects

A further intercultural comparison among Negroes proves instructive.

West Indian Negroes, whose historical experiences were less restrictive after emancipation, are economically more successful than American-born Negroes in northern cities, where presumably color and ethnic discrimination against both is similar.⁵ As shown in Table 3, the West Indian with less education has a more stable family structure, has higher occupational status, is more successful in business, and earns more income. The loss to the American Negro which may be due to cultural factors is considerable: at least 34.5 per cent for occupational status, and 55.0 per cent for employment.

TABLE 3
PROFILES OF WEST INDIAN AND TOTAL NEGRO POPULATION
IN THE URBAN NORTHEAST, 1960

	West Indian	Total Negro	%difference
1. population	84,788	2,890,461	—
2. median school years, male	9.1	9.3	—
3. % unemployment, male	6.0	9.3	55.0
4. % professional, male	5.8	3.6	37.9
5. % managerial, male	5.1	2.7	47.1
6. % clerical-sales, male	15.8	12.2	22.8
7. median income, male	\$3,415	\$3,368	—
8. % families with female head	14.8	19.2	29.7

SOURCE: U.S. Census 1960, Special Report 1-C; Nonwhite Population by Race, Table 9, 19, 24, 28, 32, 37, 46. The characteristics of West Indian Negroes are assumed to be those of Negroes characterized as foreign born.

4. *Puerto Ricans and Mexicans: subcultural effects*

A comparison of Puerto Ricans and Mexicans highlights several differences which may be only slightly affected by discrimination. Although immigrants of both groups have similarly low levels of education, the percentage of Puerto Ricans completing high school almost doubles in the second generation, while that of the Mexicans hardly rises. Second, with similar percentages of businessmen in the immigrant generation, second-generation Puerto Ricans have 50 per cent more businessmen than the Mexicans. Third, Puerto Ricans have entered clerical and sales jobs at a *higher* rate than expected, while Mexicans have entered at a lower rate than expected.⁶

One might argue that Puerto Ricans in New York face less prejudice

⁵ David Lowenthal, "Race and Color in the West Indies," *Daedalus* (Spring, 1967); Nathan Glazer and Daniel P. Moynihan, *Beyond the Melting Pot* (Cambridge, Mass.: Massachusetts Institute of Technology Press, 1964), "The Negroes," on differences between native and West Indian Negro culture.

⁶ These assertions are documented in exploratory studies cited above.

than Mexicans in Chicago, San Francisco, or Los Angeles. Conceivably this is so, yet in Chicago where both groups reside in small numbers, Mexicans show strikingly less intergenerational mobility on educational, income, and occupational dimensions (Table 4).

TABLE 4
PUERTO RICANS AND MEXICANS IN CHICAGO, AGE 25 +

	& Completing High School		& Persons Income \$3000 +		& Persons White Collar	
	Immigrant	Children	Immigrant	Children	Immigrant	Children
Mexican	14.	16.	38.	29.	8.	13.
Puerto Rican	13.	29.	16.	37.	22.	36.

SOURCE: Karl and Alma Tauber, "The Negro as an Immigrant Group," *American Journal of Sociology*, Vol. 69 (January, 1964) pp. 374-82. The data for Mexicans is only available for 1950, for Puerto Ricans for 1960.

Conclusion

IT IS WELL KNOWN that Mexicans, Puerto Ricans, and Negroes have difficulty in securing high occupational status, stable employment, and high pay. Even when the educational level of these groups and opportunities presented are taken into account, these findings hold to some degree. The question arises as to what extent the underachievement of these groups is due to their own subcultures, class discrimination against these subcultures, or ethnic-color discrimination toward all members of the group regardless of their behavior.

Differences among three Negro groups (Puerto Rican, West Indian, and native American) suggests that color discrimination does not account for all of the underachievement of the native American Negro. Analogous differences between Puerto Ricans and Mexicans suggests that racial distinctiveness is not responsible for the slow mobility of the latter. A comparison between white and Negro Puerto Ricans shows only minor effects of color discrimination. Quite plausibly the underachievement of the racially distinctive minorities emerges from their subcultural patterns and the reaction of the white middle class to these patterns (class discrimination). Although there is no denying that racial discrimination and brutal exploitation historically shaped these subcultures, the effect of current forms of these practices may be minor.

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Cambridge*

In Memoriam: Henry George 3d

DR. HENRY GEORGE 3D of Green Acres, Del., a lifelong crusader for equality of opportunity, died of a heart attack on May 16, 1968. In his passing at the age of 60, we of this *Journal* lose a lifelong friend and collaborator in our efforts to build a democratic social order.

Dr. George was born in New York City and was educated there and in France and Switzerland where his father, Henry George Jr., previously a distinguished member of Congress, served in the United States Foreign Service. His grandfather was Henry George, famous economist and social philosopher and founder of the single tax movement.

Dr. George was a graduate of the University of Arizona at Tucson and of the Philadelphia College of Osteopathy. For a time he was a field worker for the American Red Cross and later associate professor of osteopathic research at the college.

Entering private practice as an osteopathic physician in Wilmington, Del., in the 1930s, he helped to found Riverside Hospital, which he served until his death as chief of staff. He divided his time between his private practice and his responsibilities at the hospital. "He was the most dedicated man I know," said Colonel Henry Cooper, administrator of the hospital.

Throughout his lifetime he was active in efforts to improve the situation of the less fortunate and to end special privilege and all monopolies which robbed the workers and producers of their birthright, the nation's heritage of land and natural resources. He was the author of a novel, *Blood and Coal*, which attacked the conditions that existed in the Pennsylvania coal mines. A staunch liberal, he received the Democratic nomination for Mayor of Wilmington in 1943 and 1945 and carried on vigorous campaigns which, though unsuccessful, succeeded in giving wide publicity to his liberal views.

A leader in his profession, Dr. George served as president of the Delaware State Osteopathic Society and of the Philadelphia County Osteopathic Society.

To his widow, the former Mary Jane Waldman, his mother, his sons, Henry 4th and John Richard, and his sisters, Mrs. John Pierce and Mrs. Paul S. Werner, we extend our deepest sympathy. Dr. George was a valiant and dedicated comrade-at-arms in the struggle for a free society based on equality of economic opportunity and the right of all men to achieve the fullest development of their personalities. We shall miss him sorely.

W.L.

Land Value Taxation by California Irrigation Districts

By ALBERT T. HENLEY

CALIFORNIANS HAVE HAD long experience in the use of a device of local government known as an irrigation district. This is one of a class of greatly diverse forms of public districts which in some states of the United States are in wide and growing use and in others almost unknown.¹ Districts as such are something of a mystery to most people although they are in fact a simple conception. Simple and ingenious, they provide a means of accomplishing two basic ends: questions relative to projects of calamitous local import may be locally decided, and boundaries of tax burden may be conformed with those of the anticipated project benefit. In the case of California irrigation districts, which tax all the land whether the owner irrigates or not and tax only land, exempting improvements, there has been a kind of side benefit of extraordinary importance to the state. It is this last aspect which will be the subject of this paper.

I

The Evolution of Public Districts

DISTRICTS RANGE from entities with a single, defined purpose to those empowered to provide a broad general utility service. Such agencies have been organized under established general statutes and also—a recent tendency—under special district acts.

"General act districts" are in the vast majority in California. Here the basic enabling legislation is already on the books and merely provides a means of forming a local governmental agency by local initiative. The act defines the form and powers of a district so created. "Special act districts" are created by legislative act and may or may not require confirmation or consent by local election of those who are to be served by them.

A chronological survey of general district acts shows a definite movement from narrow to wide declarations of purpose. So in 1866, when reclamation districts² were first authorized, they were permitted the single function of reducing swamps and tidelands to use. The same is true of three types of protection district acts³ (1880, 1895, 1907) and three types

¹ California is second only to Illinois in numbers of created districts. On the other hand, Article X, § 2, of the Alaska Constitution restricts the delegation of taxing powers to cities and boroughs exclusively.

² Cal. Stat. 1865-66, C 570.

³ Cal. Water Code Ann., act 6172; 1 Cal. Water Code Ann., act 6174; 1 Cal. Water Code Ann., act 6175.

of drainage district acts⁴ (1885, 1903, 1919). Similarly, the Irrigation District Law,⁵ first adopted in 1887, and in widespread use today, is largely limited to authorizing the provision of water supply. There followed, in 1911, Municipal Water Districts,⁶ concerned primarily with domestic water service, and, in 1913, County Water Districts⁷ and California Water Districts.⁸ These latter two types were permitted to reclaim land as well as to distribute water for any beneficial use.

It was not until 1921, with the passage of the Municipal Utility District Act⁹ and the Public Utility District Act¹⁰ that use was made of a public agency, not incorporated as a city, which could nevertheless perform a wide variety of services for its inhabitants. This steady development culminated in the Community Services Law¹¹ passed in 1951.

Special district legislation has had a more recent history. The dominating form here is the county-wide district, often called "county flood control and water conservation districts" or "county water agencies." All reflect, in greater or less degree, the first such statute, which was the Los Angeles County Flood Control Act, enacted in 1915.¹²

II

The Elements of Public Districts

A DISTRICT may be defined negatively as a "local governmental entity which is neither a city, county, township, nor village."¹³ In positive terms such units have been defined as

. . . organized entities, possessing a structural form, an official name, perpetual succession, and the rights to sue and be sued, to make contracts, and to obtain and dispose of property. They have officers who are popularly elected or are chosen by other public officials. They have a high degree of public accountability. Moreover, they have considerable fiscal and administrative independence from other governments. The financial and administrative criteria distinguish special districts and other governments from all dependent or subordinate districts and from most authorities

⁴ 1 Cal. Water Code Ann., act 2200; 1 Cal. Water Code Ann., act 2202; 1 Cal. Water Code Ann., act 2203.

⁵ Cal. Water Code, § 20500-9958.

⁶ 1 Cal. Water Code Ann., act 5243.

⁷ Cal. Water Code, § 3000-3901.

⁸ Cal. Water Code, § 3400-8501.

⁹ Cal. Pub. Ut. Code, § 11501-4509.

¹⁰ *Ibid.*, § 15501-7776.

¹¹ Cal. Govt. Code, § 61000-891.

¹² 1 Cal. Water Code Ann., act 4463.

¹³ "Preliminary Report of the Senate Interim Committee on Study of Districts," Senate of the State of California, 1959, p. 7.

which, lacking one or both of these standards, are not governmental units.¹⁴

A distinction must be made between independent districts and dependent districts. The quotation above relates to the former. A dependent district is not autonomous in government or fiscal control but is an adjunct of a county. All districts share the features of a defined area, a governing body, legal identity, and certain powers, including power to serve the public in defined ways, to raise revenue for maintenance and operation, and to service the district's obligations.

Taken as a group, special act districts are organized by the State Legislature with local confirmation often added. General act districts are usually organized through a process of petition by proponents to a higher element of local government, followed by public hearing, an election, and a formal declaration of a favoring vote and of consequent formation.

In the matter of a governing body, the usual choice for either type of district, special act or general act, is between:

1. A board, elected at large or from divisions of the district,
2. A board appointed by a higher level of government,
3. A board identical with that of a higher level of government, acting ex-officio, or
4. Where a district is composed of constituent units, *i.e.*, of smaller districts and/or of cities, the board may consist of selectees of such units.

The governing body of an independent district, when established, is ordinarily able to act autonomously, as a city council acts, subject to the direct control of its local voters and to indirect supervision by the State.

The boundaries of a district should, of course, include the area to receive its services and benefits, including indirect benefits, without regard to artificial, political boundaries. Sometimes a finding of benefit to included lands is required. Often the several areas of a district need not be contiguous.

The most usual definition of the voters of a district is that they shall be residents and electors thereof. Restriction of voting rights to landowners is, however, a feature of certain district legislation in use in California. In that event votes normally are assigned on the basis of assessed valuation of land owned.

Assuming a power to make *ad valorem* levies, district legislation must designate (as between land alone, land and improvements, or all property) the precise values which are to be assessed.

¹⁴ John C. Bollens, *Special District Governments in the United States* (University of California Press, 1947), p. 1.

A distinction is to be recognized between taxing for maintenance and operation purposes (which may or may not be specifically limited to a declared number of cents per hundred dollars of assessed valuation) and taxing to support regularly issued bonds or certain duly authorized contracts (which taxes are by their nature limitless).

Often districts, including irrigation districts, have the valuable power to create, by appropriate proceedings, zones or sub-districts, called improvement districts, in which burden and benefit of a purely local project can be made precisely coterminous.

Districts are always declared to have legal existence, a seal, the power to sue and be sued, and the like. Districts may be empowered to contract with other public agencies, including states and the Federal government. They act in furtherance of a list of purposes as inclusive as the chosen statute may permit.

III

California Irrigation Districts

OF PUBLIC DISTRICTS in California the most used and useful have been those formed since 1887 under the "Wright Act,"¹⁵ known officially since a 1917 amendment as the Irrigation District Act. The writer has said elsewhere that ". . . the discovery of the legal formula of these organizations was of infinitely greater value to California than the discovery of gold a generation before. They are an extraordinarily potent engine for the creation of wealth."¹⁶

The legislation did not lack the tribute of emulation. Sixteen other western states have enacted irrigation district laws closely modeled upon the Wright Act.¹⁷

California irrigation districts follow generally the form of independent local agencies described in the preceding section. These special features should be noted, however:

Voters: They include all of the prospective electors who qualify to vote under the state's Election Code. Thus, unlike the majority of other state enactments in this field, California irrigation district law permits the in-

¹⁵ Cal. Stat. 1887, c. 34; amended as the "Wright Bridgeford Act," Cal. Stat. 1897, c. 189; now codified: Cal. Water Code § 20500 *et seq.* It is to be noted that although there is more irrigated land included in irrigation districts, there exists in California today more *numbers* of districts of other types.

¹⁶ Albert T. Henley, "The Evolution of Forms of Water Users Organizations in California," (1957) 45 Calif. Law Rev. 665, 667.

¹⁷ Wells A. Hutchins, *Irrigation Districts, Their Organization, Operation and Financing*, U.S. Dept. of Agriculture, Technical Bulletin No. 254, 1931.

curing of debt upon a vote without regard to landownership. An improvement may be approved and the land burdened to finance it against the will of the holders of a majority of the lands of the district. "The essence of the Wright Act . . . was the permission given to a part of the residents of a given area to incur indebtedness for which all the lands in such area were held liable."¹⁸

Revenues: The second unusual feature of these agencies is their method of burdening the benefited to pay for the benefit. Revenues are secured chiefly through "assessments" upon the land. The term as used here is not quite synonymous with "taxation." Having been levied to finance a local improvement, an assessment need not be equal and uniform, whereas a tax is required to be both. The original 1887 act called for assessing all real property. In 1909 an amendment provided for exemption of improvements in all districts thereafter created. Existing districts were permitted to come under the new provision upon a favorable vote of the landowners. Most did. All active California irrigation districts today assess land only.

Districts also may and do charge "tolls" for delivered water within and without the district. They may, and a fortunate few do, generate and sell electricity. With the consent of their electors they issue bonds and contract with other levels of government, undertaking in either case a financial obligation for which the liens of land value assessments are the basic security.

Irrigation districts levy and collect assessments independently of the county machinery. Usually the district will assess all irrigable land uniformly and give a much lower value to nonirrigable parcels—that is, to farm land the system cannot reach or which cannot use the water. Town lots which will not conceivably be irrigated were thought by some of their owners to be immune since a district is only to be created of lands "susceptible of irrigation."¹⁹ The claim did not avail them. Town lots are benefited and may be assessed, said the court, because their value depends upon the productivity of the surrounding farm lands.²⁰

In summary, district assessors tend to create classifications and assess uniformly within them; that is to say, they somewhat arbitrarily find that irrigation works are of equal benefit to each acre or provide an equal additional value to each acre in each classification so assessed.

¹⁸ *Ibid.*, p. 71.

¹⁹ California Irrigation District Law, Cal. Water Code §20700.

²⁰ *Modesto v. Tregoe* (1891), 88 Cal. 355.

IV

Irrigation Development Under the Wright Act

THE TERM "underdeveloped country" could once have been applied to California. The great Central Valley, ringed by mountains and without rain except for a few winter months, could be and often was described as a desert. It is drained by rivers made large by snow melt of the Sierra Nevada. But these flows could not make the desert bloom without the costly aids of storage (against the time of irrigation need) and transportation (to the place of such need). A traveler in California in the last decades of the nineteenth century would have found the major use of land in the Central Valley to be in vast ranches devoted to dry wheat farming or to cattle. By and large the owners of great tracts could manage well enough. Some managed very well indeed in this way. But the small settler needed to farm intensively to make a living. He needed to irrigate.

Imagine a typical "project," say a storage dam and distribution system. The cost, if spread over many benefited acres, would be bearable, otherwise not. A small farmer must have it. The large ranch owner is usually not interested. This impasse prevailed until Wright Act procedures became available and were used to break it. The process was neither smooth nor immediate. It worked and spread and matured during a period of nearly forty years after 1887. But its effects were visible before World War I and are visible today. It remains to ask what these effects were and are and whether they are worth seeking.

We start with a value assumption. It is that a system which permits or rewards the holding of large tracts of land out of production or with extremely limited unit return is less desirable socially than a system which by economic pressure tends to produce resident, productive ownership of subdivisions of such tracts. A careful study made in 1946 of the conditions found in two rural communities of California comes to that conclusion.

... the size and character of the farm holdings and operations is responsible in no small degree for the conditions in these cities. On the one hand, in the community surrounded by big farms the social, cultural, and economic attributes of life are developed to a lesser degree than in the other community which is in the midst of an area made up primarily of smaller farms independently operated where the community welfare is of a higher order and more wholesome in every particular.²¹

²¹ Dr. Walter R. Goldschmidt, *Small Business and the Community, A Study in Central Valley of California on Effects of Scale of Farm Operations*; Report of the Special Committee to Study Problems of American Small Business. United States Senate Committee Print, December 23, 1946. Foreword by James E. Murray, chairman, p. 8.

The study found the city of Dinuba to be sociologically superior in every way to the city of Arvin. The two were highly comparable geographically and in resource potential, and yet their differences were striking. The author states:

In the realm of social conditions, the two towns showed great divergence. In a series of measures of community character one community was found to meet the standards normally accepted for community life in America far better than the other . . .²²

It is the position of the present writer after detailed sifting of the evidence presented in this study, that large scale farming does, in fact, bear the major responsibility for the social differences between Arvin and Dinuba.²³ The study of Arvin and Dinuba shows . . . that quality of social conditions is associated with scale of operations; that farm size is in fact an important causal factor in the creation of such differences, and that it is reasonable to believe that farm size is the most important of these differences.²⁴

A word of caution here: the great difference between the Dinuba and Arvin areas in 1946 was that the former had an established irrigated farm economy; the latter did not. To assess with precision the effect of land value taxation would require that an area with available irrigation service *but not organized under the Wright Act formulae* be contrasted with Dinuba. Dinuba lies in the Alta Irrigation District formed in 1888. Arvin's area was not organized under the Wright Act.

On evidence, however, it seems reasonable to believe that the financing of irrigation works by land value taxation was a causal factor in producing the smaller farms Dr. Goldschmidt has found so beneficial in social effect. For one thing, that result was not an unintended one. It was expected to follow. The Wright Act was "purposely drawn to assist the development of small farming."²⁵ The pressure to use the land, or to sell to those who will, derives from the simple fact that if you are in a California Irrigation District your land (assuming it is in reach of water service) will be assessed for water development costs whether you take the water or not. To which add the further fact that if you use the land only minimally or let it lie barren for a speculative rise you pay the same number of dollars per acre as your neighbor who makes a heavy investment in improvements. Both of these difficulties were fully recognized by the old-time cattle barons and "dry farmers" and many fought the application of the Wright Act to themselves by every means at their com-

²² *Ibid.*, p. 112.

²³ *Ibid.*, p. 113.

²⁴ *Ibid.*, p. 114.

²⁵ *Ibid.*, p. 20.

mand. It is instructive to note, for example, that when in July, 1887, the Modesto Irrigation District was organized the favorable vote on the question was 700 to 156. The opponents "... claimed that of the 156 votes cast against irrigation more than 150 were cast by landowners holding 70,000 acres out of 108,000 comprising the district."²⁶

Finally, there is the evidence of observers. In 1914 the Modesto Chamber of Commerce in Modesto Irrigation District issued a statement regarding the effect of irrigation financed by a tax which exempts improvements. A few lines follow:

As a result of the change [to exemption of improvements] many of the large ranches have been cut up and sold in small tracts. The new owners are cultivating these farms intensively. The population of both country and city has greatly increased . . .

The new system of taxation has brought great prosperity to our district. Farmers are now encouraged to improve their property. Industry and thrift are not punished by an increase in taxes.²⁷

The breakup of the ranchos around Modesto did not wait for the new exemption of improvements, however. That change in assessment practice did not effectively occur until 1912. Yet in 1907 the *Stanislaus County Weekly News* told its readers:

The great wheat fields have been gradually diminishing for several years, but the last year was marked by a wonderful change. Like magic the wheat fields of a year ago have been transformed into great vineyards and orchards of fruit of all kinds . . .

The past year has been one of great activity in land division; many large tracts have been subdivided and populated by new people . . .²⁸

The following comment is from a 1929 publication of the state of California relative to Wright Act districts:

When it is realized that land in the districts is assessed at least for district bond interest, and generally also for maintenance and operation, regardless of whether it is irrigated, it is very clear that the presence in any district of large areas that are unirrigated results in great hardship. Obviously the first necessary step in eliminating that hardship is to get the land into production under irrigation, and in most cases this requires more farmers with sufficient means to carry the farm development and

²⁶ Benjamin Franklin Rhodes, Jr., *Thirsty Land: The Modesto Irrigation District, a Case Study of Irrigation Under the Wright Law* (1943) (Dissertation), University of California Library.

²⁷ Quoted in Transactions of the Commonwealth Club of California, Vol. 9, No. 4, 1914, p. 300. A statement of the Oakdale City Council in Oakdale Irrigation District is to the same effect. *Ibid.*, p. 302.

²⁸ January 4, 1907. Quoted by Rhodes, *supra*, p. 120.

operation costs while waiting for the larger income irrigation and more intensive development make possible. Even a considerable lag in settlement is to be expected, but the difficulties resulting from an excessive lag constitute one of the problems that must be counted on, along with the problems of construction and finance, when planning new irrigation district development.²⁹

It will be seen that the financing practices of California Irrigation Districts urge the landowner away from somnolence or the hope of mere speculative gain in two ways. He is nudged from behind by the assessment on his land to do something which will permit him to pay it. At the same time he is beckoned by the promise that his effort and investment to make the land produce will not be penalized since such improvements are not taxed. Which of these two weigh most heavily in his planning the present writer does not know. The evidence seems to be that both have their essential place.

V

Conclusion

DISTRICTS, AS A DEVICE of government, provide a local decision-making process together with a means of conforming the burden of an expensive local project to its benefit. Some, notably California Irrigation Districts, offer additionally a method of formation and decision which deprive a minority of large-scale landlords of what seemed a traditional veto to progress. And finally such districts are the beneficiaries of a formula of finance having two important features. One is that the costs are laid upon all land in the district to which irrigation service could be brought (or which will indirectly benefit) regardless of the use the owner may choose to make of the available service. The second is that the orchards, vineyards, and buildings of the industrious owner are not assessed, only his land, valued as if unimproved. Where invoked these provisions have combined to change a semiarid land from expectable permanent slumber as an area of absentee baronies to one of prosperous independent farms and rural cities offering social as well as economic rewards to the State.

The foregoing must be taken as valid only for the special situation which existed in California's undeveloped areas in the past. The Wright Act formulae do not appear to have the effect of breaking up large modern corporate farms, but the pressure to bring the assessed acres into production remains.

²⁹ Frank Adams, *Irrigation Districts in California*, California State Department of Public Works, Bulletin No. 21, 1929, p. 36.

The writer does not contend that without irrigation districts the development of the Central Valley of California would never have taken place. If water had been brought to the land by other means of financing (say by a central government or a private company) and offered for sale at so much per acre foot canal-side, the development of an irrigated agriculture would probably have occurred—but with the progress of a glacier. It seems likely that great areas would remain today in minimal use. That the change was swift and thorough was due in substantial part, it would seem, to the effective elements of district-wide, land value assessment practices inaugurated by the Wright Act.

San Jose, Calif.

Low Cost Protein Sought

MASSACHUSETTS INSTITUTE OF TECHNOLOGY has received a \$400,000 grant from the Alfred P. Sloan Foundation to launch a multidisciplinary study of the widely discussed single-cell protein (SCP), which has been proposed as a low-cost solution to the chronic protein shortages which afflict many parts of the world. This kind of protein, intended for use as human food or animal feed, is obtained by growing single-celled organisms, such as yeasts and certain bacteria, usually on a base of a petroleum fraction.

While industrial research in some aspects of SCP is well advanced, MIT scientists believe that a number of fundamental problems must be resolved before this source of nutrition will be ready for widespread use. Among these problems is the possible association of SCP ingestion with high levels of uric acid, and a corresponding tendency to gouty arthritis, in man. The scientists will attempt to find ways of controlling this problem and to optimize the nutritional value of SCP by learning how to process it to best advantage and even manipulate its chemical makeup.

The project will be conducted in the MIT Department of Nutrition and Food Science under the direction of Dr. Nevin S. Scrimshaw, professor of nutrition and head of the department. It will involve specialists in biochemical engineering, food engineering, food processing, food chemistry, food toxicology, nutritional biochemistry, nutritional animal pathology, clinical nutrition, and other disciplines. [From Robert L. Hermann for the Foundation.]

Obstacles to Adoption of Land Value Taxation

The Story of Meadville

By HARRY GUNNISON BROWN and ELIZABETH READ BROWN

I

READERS WHO HAVE FOLLOWED the theoretical argument and the impressive factual, including statistical, data on land value taxation frequently ask: "If it is so good, why is the progress of this reform in America so slow?" Perhaps the story of one city—Meadville, Pennsylvania—will shed some light on the matter.

During the fall of 1963, signs appeared that a serious study might be made of this tax policy, with a possible recommendation for action by the City Council. At one meeting in the Chamber of Commerce rooms the subject was discussed. Shortly thereafter, however, it became clear that no serious attention would be given to it until after the Thanksgiving and Christmas holidays. But then on January 9 plans were announced to a group of business and civic leaders for a program entitled "Operation Update Downtown."¹ In this program no reference was made to any encouragement of "updating" by exempting improvements from taxation or even by somewhat reducing the taxes on them. A chief point in the program—one by far more costly than any other part of it and probably much more expensive than all the rest of it together—was subsidization by the city to provide 800 more parking meters. These, it was thought, would aid the downtown merchants in meeting competition of a newly developing shopping plaza. The program was proposed by the City Council and the Meadville Planning and Zoning Commission. This "\$2 million-plus Plan" was to be financed by a \$10 occupation tax and a business privilege tax in order to raise the \$105,000 a year needed.

The business privilege tax was to range up to a maximum of \$100 a year, depending on the volume of business. The occupation tax was expected to yield about \$85,000 a year and the business privilege tax \$25,000. Of the \$110,000 yield per year, then, the occupation tax would provide a little more than 77 per cent! At a special meeting, on January 10, of the board of directors of the Retail Division of the Chamber of Commerce, a motion by Phil Toppo to "give enthusiastic support to the plan" was passed unanimously.

¹ John U. Shaffer, "Merchants Enthusiastic Over Updating Program," *Meadville Tribune*, Jan. 11, 1964, pp. 1-2.

Robert Echnoz warned that "if downtown business goes to pot," presumably for lack of subsidization mostly by an occupation tax of the same amount on the unskilled laborer and the \$20,000 or \$30,000 a year executive, "there will be fewer store clerk jobs." And of course nobody referred to the effect land value taxation has had, where it has been tried, in attracting industry, increasing building construction, and increasing employment.

F. C. Stewart, manager of the Chamber of Commerce, said that an educational program would be necessary. "Council is willing to assume all responsibility. All it asks is help," he said. He added: "Is the downtown worth saving? If it is, we need action now. City Council is ready to move but can't go it alone, needs support."

And the support was quick in coming.

In the same issue the local newspaper defended the plan with enthusiasm.² Two days later the board of directors of the Chamber of Commerce unanimously approved.³ Considerable newspaper space was given, for several days, to publicizing the plan.

A public meeting of the City Council, on January 14, in the Council room at City Hall⁴ showed there was considerable opposition to the plan. The Council room was altogether too small to accommodate all who wanted to attend. Demands arose from the audience that no action be taken until another meeting could be held where there would be adequate room. It is worth noting at this point, however, that at the end of this first meeting, the chairman of the Planning and Zoning Commission expressed privately to the authors his view that the answer needed for Meadville was land value taxation.

The later meeting was held January 16 in the Junior High School auditorium⁵ with "more than 900 persons" in attendance. Opposition to the plan and especially to the \$10 occupation tax was led by two labor union officials and by Dr. John B. Henderson, chairman of the Economics Department, Allegheny College, with other faculty members supporting him. Alternate cheering and booing came from an audience that was clearly opposed to the plan. Before the end of the meeting the Council

² *Ibid.*, "Bold Plan Merits Support" (editorial), Jan. 11, 1964, p. 8.

³ *Ibid.*, "C of C Board Approves Update Downtown Program," Jan. 15, 1964, p. 16 (Action taken Monday, Jan. 13.)

⁴ Halver Getchell, "Council Defers Action on 'Update Downtown,'" *Meadville Tribune*, Jan. 15, 1964, pp. 1-2.

⁵ Halver Getchell, "City Bows to Citizen Opposition," *Meadville Tribune*, Jan. 17, 1964, pp. 1-2.

abandoned what they had indicated to the Chamber of Commerce they favored.

Somewhat earlier in this same meeting, however, Mayor William C. Arthur had stated that he planned to appoint a committee to study land value taxation.⁶ Yet at present writing, well over four years later, no committee has been appointed. One cannot but wonder why.

When the proposal for an occupation tax and for a business privilege tax was announced, the directors of the Retail Division of the Chamber of Commerce and the directors of the Chamber of Commerce as a whole approved and supported these taxes. Within a few days of the public announcement, the Council, had it not been for opposition, would have made them mandatory. The local newspaper supported the whole plan. So far as we are aware, no petition has been signed by anyone, urging the plan or requesting that it be financed by these taxes. Yet several months later a councilman, who is apparently interested in and sympathetic toward land value taxation, remarked to one of the authors that the Council might consider land value taxation if it first had presented to it a petition signed by 1,000 citizens, far more citizens (since many in the audience of over 900 were Allegheny College students) than had attended the big meeting of January 16.

Nevertheless the Council—in collaboration with the Planning and Zoning Commission—had been willing to consider, and even to propose, an occupation tax on all employed persons without there being any such petition, though there was, indeed, a special interest group ready and eager to support it.

II

THE DOWNTOWN or "core area" of Meadville is the area where, we are told, a single acre of land cannot be purchased for less than \$100,000, whereas at the Shopping Plaza area where Mason's, Trask's, and Super Duper stores have recently located, the price of land may be in the neighborhood of a tenth as much.

If the city were to subsidize parking, as was planned, for the core area where land is already so expensive, land in this area would become still more desirable and rents would go still higher. The gain from such subsidizing would go to landlords. It certainly would not go to the clerks who work in the stores. Nor would it go to labor in general. It would not go to merchants who now pay rent to landlords, for they would

⁶ *Ibid.*, "Core Area Plan Dropped," Jan. 17, 1964, p. 2.

be required to pay higher rents. If the subsidized parking did increase the profitability of doing business in the core area, competition for space there would certainly enable the owners of those sites to get more rent from them. The gain would not go to merchants as *merchants* even if they owned the land they are using but would go to them only as *landowners*. And in so far as the taxes to provide the parking were on labor—and the plan called for placing nearly 80 per cent of it on workers—the city would be subsidizing landowners *at the expense of wage earners*. Incidentally, too, the city would be subsidizing downtown landowners who did not provide their own parking, against landowners who did provide it.

It is interesting to note that, or so it appeared, none of the various proponents and supporters of "Operation Update Downtown" so much as suggested that any of the expense should be levied on land values. Yet the recipients of rent from these very valuable downtown sites are deriving their rental incomes because of *community*-produced advantages. The high location value of this downtown land is due to the growth of a community around and near to it. The owners are able to derive sizable incomes by charging their fellow citizens for permission to work on parts of the earth to which the growth and development of the community, and not any activity of these individual owners, have given special location advantages. The proposed plan was intended to make these advantages even greater and charge the bill mostly to labor!

One reason why large support for land value taxation is difficult to get is that a decided majority of those for whom the reform is most needed have no understanding of what it could do or why. They do not realize that the effects of a tax on land values are directly opposite to the effects of a tax on buildings, machinery, and other capital that men make. They have no understanding of how, or why, they are being continually injured by the speculative holding of land out of use that our present tax policy encourages. Though they will—and we have just illustrated when and where they did—angrily protest against an occupation tax, or wage tax, as an injurious and unfair discrimination against them, they will suffer far greater injury from our contemporary real estate tax policy, without protest. Hence, the members of a legislative body such as the U.S. Congress, a state legislature, or a city council, if they take the action that circumstances require, must do so because of understanding and because of conscience rather than because of any significant urging or support from those who need help most.

Still more important probably, is the fact that slum landlords as well

as owners of vacant lots (which they are holding speculatively out of use, to the disadvantage of everybody else) will vociferously protest against any tax policy that makes the maintenance of slums, or the holding of land out of use, unprofitable. Thus a vocal minority whose interests are antagonistic to the interests of the majority and to the economic development of the community as a whole may scare the elected representatives of the community so that they will not do what is demonstrably best for the great majority. Discussing in his recent book, *My People Is the Enemy*, the needs and the suffering of Negroes in the slums of Harlem, New York City, and the difficulty of getting justice for them, William Stringfellow remarks:

"Legislatures in American society today, both local and national, respond not to social and public needs, but to economic and political pressures."⁷

Thus the fear of a special-interest minority may be so great—as it has recently at least *seemed* to be in Meadville—as to prevent even the appointment of a committee to investigate a policy which such an interested minority opposes.

There is, in any case, no intention to suggest that the political leaders in Meadville are less courageous than those in other Pennsylvania third-class cities. We know of other Pennsylvania third-class cities where it has seemed for a time that steps were likely to be taken in this direction but where, in the end, nothing was done.

Nevertheless, experience where this tax reform has been tried shows that nearly all homeowners find their taxes reduced. And, of course, the speculative holders of vacant land do not. Also, new dwelling construction is decidedly greater and this tends toward lower rents for tenants. Industrial development is promoted and employment opportunities are increased. Blight and slums are less prevalent when owners are not rewarded by reduction of taxes and when attempts to improve slum dwellings are not punished by increased taxes. Likewise, a much larger proportion of the stores are modern and a much smaller proportion are obsolete where land values are more heavily taxed and buildings are tax exempt. It was ridiculously illogical, then, for the Meadville City Council, the Planning and Zoning Commission, the Retail Division of the Chamber of Commerce, and the Chamber of Commerce directors all to publicize and praise and work for "Operation Update Downtown" and completely ignore the fact that the present real estate tax system

⁷ *My People Is the Enemy*, an autobiographical polemic (New York: Holt, Rinehart and Winston, 1964), pp. 71-72.

punishes by higher taxes any owner who ventures to do the "updating" of his building that he is being especially asked to do.

In several Australian states the question of whether to adopt a land value tax policy in a city, town, or rural district is decided, not by a council, but by a vote of property owners. Again and again they vote in the affirmative, often overwhelmingly, *e.g.*, by 3½ to 1 and 4 to 1.⁸ If, in an American city, a considerable number of influential property owners favor this reform and are willing to urge its adoption, they should not find it too difficult to muster some support among citizens whose sole income is wages. And it should not be too difficult to show that a political party which opposes the reform is in fact, whatever its pretenses, an enemy of homeowners and likewise an enemy of labor.

Although we shall not mention here any member of the Meadville City Council by name, we are strongly inclined to the view that several—and it could be most of them—are favorably disposed toward the land value tax policy. This view is based partly on personal conversations with several of the members and partly on comments from friends who are well acquainted with some of the Council. We feel pretty sure that the understanding of the subject by most members of the Council is much above that even of most rather well-educated citizens. Perhaps, therefore, if there were a considerable number of understanding, personally disinterested and dedicated citizens ready and eager to express their support openly, the Council would welcome this support and would take the necessary steps toward implementing a land value tax policy.

Columbia, Missouri

⁸ *Land & Liberty*, 65 (London, England, August, 1958), p. 136.

The Negro's Employment Plight

UNEMPLOYMENT OF THE PEOPLE in the inner-city is another and important part of the urban problem. Almost 13 million nonwhites live in central cities. Currently, the Negro unemployment rate is more than double that of white and even in today's prosperous economy is higher than white unemployment in 1946, the worst postwar recession year. Among young Negro men from 18 to 25, unemployment in some slum areas is over 30 percent. [From an address.]

M. A. WRIGHT

Humble Oil & Refining Co.

A New Look at Henry George

BY STEVEN CORD

I

Introduction

THE NAME OF Henry George, once relegated by historians to the dim and distant past, has been referred to with increasing frequency in their more recent writings. History textbooks—those repositories of accepted academic opinion—are a good measure of this renaissance. Prior to World War II, few of them gave George even passing mention, whereas since that war it has been good form to cite him as an important precursor of the Progressive reform era. When history was written with a heavy political and economic emphasis, George was overlooked because the writers had the idea that he did very little in those areas. But with the advent of intellectual history he has come more into notice, at least by historians with that approach.

Today it is generally realized that George exerted an important influence on the development of American democratic thought. He was one of the first to impress upon the American people that poverty and depressions were social evils demanding immediate government action. He was the most widely read among those Reform Darwinists who destroyed the popular notion that society could only improve if human nature itself improved, and that this improvement must wait upon the slow millennial workings of the evolutionary process.

George was especially effective in his denunciation of monopoly, and few reformers of the Progressive era failed to acknowledge that their thinking had been vitally affected by an early reading of George's *Progress and Poverty*. Newton D. Baker's comment on Henry George was characteristic of the views of many Progressive reformers: "I doubt whether many men have so profoundly affected a nation's thought as Henry George has affected the thought of America."¹ Professor Eric Goldman's comment is characteristic of the modern historian's viewpoint:

For some years prior to 1952, I was working on a history of American reform and over and over again my research ran into this fact. An enormous number of men and women, strikingly different people, men and women who were to lead twentieth-century America in a dozen fields of humane activity, wrote or told someone that their whole thinking had been redirected by reading *Progress and Poverty* in their formative years. In

¹ Newton D. Baker to Bolton Hall, June 24, 1935. Original letter in the files of the Robert Schalkenbach Foundation.

this respect no other book came anywhere near comparable influence, and I would like to add this word of tribute to a volume which magically catalyzed the best yearnings of our grandfathers and fathers.²

Any evaluation of George's influence must, of course, take note of the fact that the proposal for which he devoted his life, a single tax on land values, has never yet been given a complete trial anywhere. Despite the millions of copies of *Progress and Poverty* that have been sold and despite the legions of people influenced by that book, no simon-pure single tax legislation has anywhere been adopted, although it must be said that land has been more heavily taxed in many places of the world as a result of George's evangelism.

When all is said and done, George's influence on the course of American democratic thought stands out as of real importance. It is desirable, then, that his ideas be carefully understood by historians. Yet there are many who claim that George's ideas have been subject to serious distortion and misstatement through the years and that recent historical scholars have not been much more accurate. This is a serious charge, and it is the purpose of this paper to examine its validity. Of course it is important that the Henry George record be clarified in the interest of historical truth. But the issue is of particular moment now because his proposal of a heavier tax on land values has received support recently from many prominent authorities in the fields of urban renewal, municipal taxation, and land reform. Two such authorities among many are *House & Home*, the leading trade journal of the construction industry, and *The American City*, the leading trade journal for municipal administrators. Generally, these authorities favor not the single tax—a tax on land values *only*—but a full tax on land values, in conjunction, if necessary, with other taxes. *The Reader's Digest*, in its July 1962 edition, has vigorously supported this idea. If George's ideas have important application to present-day problems, historians especially should beware of obscuring them in a cloud of generalities and misconceptions. Let us see if indeed they have done so.³

² Goldman's letter to Robert Clancy, New York City, dated May 12, 1954. Goldman lists *Progress and Poverty* among the thirteen books that have most shaped the thinking of living Americans (see *Saturday Review of Literature*, July 4, 1953, p. 38).

³ The conclusions of this article are based on a careful study of all the biographies of Henry George by American authors, practically all the chapter-length studies of him appearing in books of collected biographies by well-known historians, and most of the important references to him in the recognized histories of the 1880-1920 era or of American intellectual life. Literally dozens of textbooks in American history, including all the best-known ones, have been surveyed for their comments on George. A concerted effort has been made to obtain as comprehensive and fair a survey as possible in order to avoid the pitfall of weighting the sample either for or against the thesis that George's ideas have been misinterpreted by many historians.

II

George and the Land Value Tax

ALTHOUGH ALMOST ALL HISTORIANS have praised George as an apostle of American social reform, many of them were critical of his single tax proposal. Many such criticisms alleged that a tax on land values was administratively unfeasible. Benjamin P. DeWitt, who in 1915 wrote the first history of the Progressive movement, charged that if land values were taxed they would be rapidly reduced to zero, eventually leaving nothing to tax.⁴ Supporters of Henry George feel this obstacle can be easily overcome. They advocate that their tax reform be imposed gradually over a period of years and when the point is reached that land values become too small to be properly taxed, then the land should be assessed at its annual *rental* value and this is what should be taxed, eventually in full. This is similar to the tax system which Canberra, Australia, has used for many years.

While attributing great influence to George as one of the first reformers of America's Industrial Age and an important precursor of the Progressive era, Daniel Aaron, in *Men of Good Hope* (1951), brushed aside "the dubious mechanics of his land tax."⁵ The dubiousness is unexplained, though frequently referred to. Nevertheless, this attitude finds support among many other historians. For instance, Perry Miller, while regarding George as the most important exponent of Reform Darwinism, wrote that "in the cold light of history, it seems clear that this ingenious device [the land value tax] is impracticable, and one can only lament the time and energy George expended in trying to prove it feasible."⁶

Historians who hold this view of the land value tax should know that for many years it has been applied successfully in many parts of the world. In the United States it has been utilized in such diverse places as Arden, Delaware; Fairhope, Alabama; the California Irrigation Districts, and the city of Pittsburgh. The latter city taxes land values at twice the rate on buildings (although its county and school taxes remain unchanged), and it has received the support of practically all political factions.⁷ Land value taxation has also been in force for many years in Denmark (demanded by the farmers); Kenya; South Africa; western Canada; Australia, and New Zealand. In the latter two countries in particular, many municipalities

⁴ Benjamin P. DeWitt, *The Progressive Movement* (New York: The Macmillan Co., 1915), p. 359.

⁵ Aaron, *loc. cit.*, (New York: Oxford University Press, 1951), p. 71.

⁶ Perry Miller, ed., *American Thought, Civil War to World War I* (New York: Rinehart, 1954), p. xxv.

⁷ The comment of the present mayor, Joseph M. Barr, is typical: "The graded tax plan has worked well in Pittsburgh and we believe it would prove equally beneficial if tested in other areas." (July 12, 1962, luncheon speech at Chatham College, Pittsburgh, Pa.)

have long paid their governmental expenses solely through a tax on land values, and the increasing number of municipalities switching to this tax system has been a constant phenomenon in recent years. Whatever may be the advantages or disadvantages of the single tax, this record would certainly indicate that it is administratively feasible and that its mechanics are not "dubious."

III

The Treatment of George's Ideas

ALTHOUGH MANY HISTORIANS were reasonably sure of the extent of George's influence, they were somewhat vague in their description of his ideas. For instance, Merle Curti wrote at great length about George's history, philosophy, and impact, but devoted only two sentences to a description of the mechanics of the land value tax—George's central idea—and these were vague, if not misleading.

In place of the existing system of taxation George proposed a single tax on all increments in the value of land. This would merely allocate to the public, to all individuals, that part of the value of a given piece of land that the public, or all individuals, had created.⁸

This hardly gives an adequate explanation of the mechanics of the land value tax. Besides, what George actually proposed was that all the value of land be taxed away, not merely part of it, the increments or increases in it. Curti's vagueness about the mechanics of the land value tax affected his evaluation of George's ideas:

Moreover, the unearned increments of mines, real estate, and other landed properties were distributed in widely held insurance policies, stocks, bonds, and mortgages. Henry George in reality never understood the pervasive nature of capitalistic society. Consequently he provided for no adequate political means for effecting his program. Nor did he understand the obstacles in the way of mobilizing power behind a program that in effect would have entailed a virtual revolution against capitalism.⁹

Did Curti realize that land rent can be separated from other economic factors and collected by the government in taxation? The reader may wonder what political means Curti would regard as adequate for winning adoption of the land value tax. Wherever that tax has been applied the ballot box and the existing municipal tax administration have proven quite sufficient. As for the remarkable statement that "a virtual revolution against capitalism" would be required, an opinion once expressed by Karl Marx becomes relevant: he called the single tax "capitalism's last ditch" and an attempt to "rear [capitalism] anew upon a firmer basis than its

⁸ Merle Curti, *Growth of American Thought* (New York: Harper, 1943), p. 615.

⁹ *Ibid.*, p. 616.

present one."¹⁰ In misunderstanding the mechanics of George's proposal, Curti and others were led to believe that it would require a complete revamping of our present social and economic arrangements.

Other leading historians are equally vague. Eric Goldman in *Rendezvous With Destiny* (1953) makes numerous and lengthy references to George, but nowhere describes his chief proposal. Ralph Gabriel devoted only one sentence to the mechanics of land value taxation in his lengthy (and quite illuminating) section on George, writing that "George did not propose the complete nationalization of land but merely, as a practical measure, the appropriation by the State of the unearned increment in value which society itself brings about."¹¹ The term "unearned increment" is more suitable to John Stuart Mill's proposal that only the *future* increase in land values be taxed away, and that land values existing at the time of the institution of his tax remain inviolate (in fact, it was Mill who first popularized the term). George, on the other hand, wanted to tax away all land values by collecting the *full* land rent for government use. The term "unearned increment" never appears in *Progress and Poverty*.

One of the most questionable statements made by historians about George is the oft-repeated charge that he advocated land nationalization.¹² In great measure, this error also came about because many historians inadequately or only vaguely understood the mechanics of the land value tax. Land nationalization has a very definite meaning: the ownership and control of land by the government. The land value tax, although it is levied on the rent from land, does not in any way diminish an owner's right to retain his title to the land. It may be asked, Why should anyone retain title when the rent is taxed away? The answer is that an owner would want to keep his title in order to use the land as he may wish and in order to maintain the security of ownership in his improvements on the land. The rent measures the special locational advantage of a particular piece of land. If this advantage is taxed away, the landowner would still be able to derive an income from his own labor and capital improvements on that

¹⁰ Letter written by Karl Marx to a friend, June 20, 1881, and reprinted in *The People* (New York), June 5, 1892.

¹¹ Ralph Gabriel, *The Course of American Democratic Thought* (New York: Ronald Press, 1940), p. 202.

¹² For instance, see Benjamin P. DeWitt, *op. cit.*, p. 358; Thomas Beer, *Mauve Decade* (New York: Knopf, 1926), p. 11; James Ford Rhodes, *History of the United States From Hayes to McKinley, 1877-1896* (New York: Macmillan, 1928), p. 286; Stewart Holbrook, *Dreamers of the American Dream* (New York: Doubleday, 1957), p. 161; Charles Madison, *Critics and Crusaders* (New York: Henry Holt, 1947), p. 282; Saul K. Padover, *Genius of America* (New York: McGraw-Hill), p. 231. For textbooks making this error, see Steven Cord, *How American Historians and Economists Have Viewed Henry George* (New York: Columbia Teachers College doctoral dissertation, 1962), p. 213-14.

land. George added that his tax buttressed the land title and the security of improvements because it would replace the taxes on those improvements.

It is worthwhile to quote George himself on this matter. In *Progress and Poverty*, he wrote: "I do not propose either to purchase or to confiscate private property in land. The first would be unjust; the second, needless."¹³ In his later book, *A Perplexed Philosopher*, he wrote: "I am not even a land nationalizationist, as the English and German and Australian land nationalizationists well know. I have never advocated the taking of land by the State or the holding of land by the State, further than needed for public use; still less the working of land by the State."¹⁴

Another recurrent charge that is equally questionable classifies George as a socialist. Sometimes the term "socialist" is qualified by "agrarian" or "Christian."¹⁵ In fact, it would be hard to prove that he was any type of socialist. His respect for industrial competition and the private ownership of the means of production permeate *Progress and Poverty* and indeed all of his books. It is true that as a side interest he advocated government ownership (by purchase) of utilities on the ground that competition was impossible in such industries. But government rate regulation (such as we now have in the United States) won his reluctant approval as an acceptable substitute. It is true that he often spoke of "true socialism" as being a desirable goal, but he thought of it as being capable of accomplishment only in the far distant future, and by that phrase he meant a socialism of the Owenite voluntary and cooperative type motivated by a religious spirit, and not the Marxist kind of socialism now most frequently debated—the socialism by which the government owns the means of production. Indeed, George had nothing but contempt for Marx and his ideas, calling him "the prince of muddleheads."¹⁶ George did accept the support of the socialists in his 1886 campaign for the New York City mayoralty, but it must be remembered that he ran on a platform of his own choosing and, after repeated quarrels, evicted them from his party in the following year. His followers contend that a high degree of socialism exists when the

¹³ Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1960; originally published 1879), p. 405.

¹⁴ Henry George, *A Perplexed Philosopher* (New York: Robert Schalkenbach Foundation, 1946; orig. 1892), p. 70.

¹⁵ For instance, see Lewis Einstein, *Roosevelt, His Mind in Action* (Boston: Houghton Mifflin, 1930), p. 39; Fred E. Haynes, *Social Politics in the U.S.* (New York: Houghton Mifflin, 1924), p. 117; Arthur Ekirch, *The Decline of American Liberalism* (New York: Longmans Green, 1955), p. 157; Jennings B. Sanders, *A College History of the United States* (Evanston, Ill.: Row, Peterson & Co., 1962), Vol. 2, p. 150. For textbooks making this error, see Steven Cord, *op. cit.*, p. 214.

¹⁶ George R. Geiger, *Philosophy of Henry George* (New York: Macmillan, 1933), p. 239.

government can take 48 per cent of a corporation's profits and 14 per cent of a poor person's income. By making such taxation unnecessary they feel that the land value tax is anti-socialist.

A final decision cannot easily be rendered on two other criticisms commonly leveled against George's ideas because they fall into the category of questions of opinion. The first of these criticisms finds fault with George's reliance on absolute natural law, asserting that it is the State which is the sole source and final arbiter of our rights (social utility theory).¹⁷ To which George replied: "There are those who say that the right of property, as all other rights, is derived from the State. But they do not really think this; for they are as ready as any one else to say of any proposed State action that it is right or it is wrong, in which they assert some standard of action higher than the State."¹⁸

The other frequently encountered criticism leveled against George maintained that his tax was not predicated upon the ability-to-pay principle.¹⁹ George replied that it is better to tax an income that society produced and which is essentially unearned by its recipients than to tax incomes earned and produced by individuals. Besides, it is possible to employ "soak the rich" taxes in conjunction with the land value tax, if it is so desired. Another consideration is that since the most valuable land is owned by rich people, George's tax does indeed adhere to the ability-to-pay principle, perhaps even more so than the present income tax with its many loopholes.

IV

Erroneous Ideas about George

ANYONE WHO HAS MADE a careful study of the treatment of George in historical literature is struck by the surprising large number of incidental errors that creep into such accounts. Such literature is generally characterized by the most careful pursuit of verifiable facts, and although the mistakes in the sections on George are not to be construed as casting aspersions on the accuracy of the other sections, this paradoxical finding can only be explained by the fact that George's career and ideas had never been carefully studied by many historians. It will be instructive to look at the many examples:

(1) Thomas Beer wrote that George supported the Populist Party in 1896, whereas the exact reverse was true.²⁰

¹⁷ Arthur Young, *Single Tax Movement in the United States* (Princeton, N. J.: Princeton University Press, 1915), p. 303.

¹⁸ Henry George, *A Perplexed Philosopher*, p. 211.

¹⁹ Edward R. Lewis, *History of American Political Thought . . .* (New York: Macmillan, 1937), p. 280-81.

²⁰ Thomas Beer, *op. cit.*, p. 38.

(2) James Ford Rhodes claimed that George's 1886 mayoralty campaign was aided by the Haymarket Affair and the railroad strike in the Southwest, although all other scholarly accounts take an opposite stand.²¹

(3) On one page of his masterwork, *Main Currents in American Thought*, Vernon L. Parrington included George with Virginia Woodhull and Tennessee Claflin, "Citizen" George Francis Train, Henry Bergh, Ben Butler, Ignatius Donnelly, and Bob Ingersoll as a "goodly company of cranks." But on another page he placed George in company with Darwin, Spencer, Mill, Karl Marx, Haeckel, Taine, and William James as "masters of which no school in any age need feel ashamed."²² Elsewhere he stated that "from the classical economists Henry George got little," contradicting George's own assertions and the obvious facts.²³

(4) Eric F. Goldman alluded to George's supposed unfriendliness toward Jews.²⁴ However, the quotation he gives to prove this merely indicates George's reasons why he thought Jews were different. The main ones, said George, were environmental rather than hereditary. George's close personal ties with Jews throughout his adult life would refute Goldman's inference.

(5) Arthur Ekirch wrote that, according to George, the basic source of poverty "lay in the ratio of population to land."²⁵ Actually, George was indignantly anti-Malthus and devoted four chapters in *Progress and Poverty* to disproving Malthus' contentions.

(6) Edward R. Lewis wrote: "It is clear that he [George] was wrong in his theory that wages are the direct result of the contribution of labor."²⁶ However, this theory is commonly accepted among economists today and it is not true, as Lewis stated, that Frank W. Taussig disagreed with George on this point.

(7) Gerald W. Johnson, in his *Lunatic Fringe*, referred to George as a devout Episcopalian throughout his life, claimed he was nominated for mayor in 1884, was unaware of Marx, threw aside natural law. He also made no less than seven other similar errors (yet the other chapters of his book were seemingly free from such misstatements).²⁷

(8) George did not advocate the income tax, nor, in my opinion, were Condorcet, Comte, and Fourier his ideological forerunners, as Daniel

²¹ James Ford Rhodes, *op. cit.*, p. 286.

²² Parrington, *loc. cit.* (New York: Harcourt, Brace, 1927), Vol. 3, pp. 12, 402.

²³ *Ibid.*, p. 131.

²⁴ Goldman, *Rendezvous With Destiny* (New York: Knopf, 1953), pp. 99-100.

²⁵ Ekirch, *op. cit.*, p. 157.

²⁶ Lewis, *op. cit.*, p. 278.

²⁷ Johnson, *loc. cit.* (Philadelphia: J. B. Lippincott, 1957), pp. 110, 111, 113, 115, 117, 118. Also, see Cord, *op. cit.*, pp. 198-99.

Aaron stated in *Men of Good Hope* (1951).²⁸ Nor should George be criticized, as in this book he is, for dismissing two aides, M'Cready and Sullivan, from *The Standard*, George's weekly newspaper, in view of the fact that they both moved into George's home uninvited during his summertime absence and then commenced to issue scurrilous statements about George and the single tax movement. A reader may wonder why Aaron characterizes George's break with Father Edward McGlynn as a blunder after McGlynn's insistence that their single tax party be expanded to nation-wide scope even though the party had just suffered a disastrous defeat in New York State (1887). McGlynn had founded and led the whirlwind-dervish Anti-Poverty Society, which had often embarrassed George by its near-fanatical enthusiasm for the single tax.

(9) Saul K. Padover's *Genius of America* (1960) stated that the land value tax is unconstitutional,²⁹ a view disproven by its many practical applications within our borders.

(10) David S. Muzzey referred to George as the editor of the *San Francisco Times*—actually he was editor of the *Post*. A more important error—he also stated that George called labor the chief factor in the production of wealth. No such thought can be found anywhere in George's writings. The mistake probably stemmed from a confused notion of George's labor theory of value and property.³⁰

(11) Eugene O. Golob described the British Labor Party's Town and Country Act (1947) as "interesting evidence of the continued vitality of Henry George's economics in England."³¹ Yet this act was vehemently condemned by British single taxers because it did not provide for land value taxation—it even made its future imposition more difficult—and contained many coercive features concerning land use.

(12) George Soule made the same misstatement and in addition admonished Henry George for not attempting to analyze depressions.³² Actually, Henry George devoted the first half of *Progress and Poverty* to just such an analysis.

(13) Robert Heilbroner referred to George's supposed "equation of rent with sin" (not so—George did not wish to abolish rent) and in discussing George's elopement with his bride-to-be, Heilbroner implied that

²⁸ Aaron, *op. cit.*, pp. 75, 79, 89.

²⁹ Saul K. Padover, *loc. cit.* (New York: McGraw-Hill, 1960), p. 231.

³⁰ David S. Muzzey, *The United States of America* (New York: Ginn, 1924), Vol. 2, p. 192. George's labor theories of value and property differed entirely from the theories of Marx.

³¹ Eugene O. Golob, *The "Isms"—A History and an Evaluation* (New York: Harper, 1954), p. 286.

³² George Soule, *Ideas of the Great Economists* (New York: Viking, 1952), p. 86.

George thought he was marrying a rich woman, a view which finds no basis of support from George's scholarly biographers, nor from any other book; his future wife's very limited finances were well known by all those who knew her.³³

If the scholarly historians are confused by Henry George, then we should not be surprised if we find errors in the textbooks, and such is in fact the case. Out of twenty-one recent textbooks making more than cursory reference to George, seven committed what could be considered errors, all duplicating those already mentioned above.³⁴ Since very few of these texts devoted more than two paragraphs to George, the prevalence of error is remarkable. Although these same textbooks erred in their brief sections on George, they exhibited a high degree of factual reliability on practically all other subjects.

V

George's Scholarly Biographers

NATURALLY, NO HISTORIOGRAPHICAL TREATMENT of Henry George can be considered complete without mention of his scholarly biographers. Only three book-length studies exist in English³⁵ and, as one might expect, they exhibit a high degree of factual reliability. These writers, at least, have fully read their Henry George. However, some questionable interpretations stand out.

For instance, Albert Jay Nock wrote an interpretative book-length essay in 1939, based on a right-wing philosophical anarchist point of view.³⁶ Nock accepted the single tax wholeheartedly but claimed that George's great mistake was that instead of spending his life in philosophical contemplation and writing books on ethics, he chose the lower life of polemicist, agitator, humanitarian, and lecturer. Rather than trying vainly to appeal to the masses and frittering away his energies in various political efforts, George should have concentrated his efforts on a rather vaguely defined elite of mankind, according to Nock.

However, it is hard to see how George could have made a living without lecturing or writing magazine articles. Nock himself admitted that it was George's agitation on the Irish land question which catapulted him and *Progress and Poverty* into the public spotlight. Sales of the book had

³³ Robert Heilbroner, *The Worldly Philosophers* (New York: Simon & Schuster, 1953), pp. 176-82.

³⁴ Steven Cord, *op. cit.*, pp. 213-14.

³⁵ Excluding such excellent works as those by Henry George Jr. and Anna George de Mille on the somewhat arbitrary ground that they were not professional scholars.

³⁶ Nock described it as a rewrite of Henry George Jr.'s work.

been limping along at a very unsteady pace until that episode. Would anyone ever have heard of George if he had followed the contemplative life? If he had not related his philosophy to the pressing problems of his day, would he and his ideas have been consigned to oblivion as happened to such contemplative precursors as Dove, Ogilvie, Filangieri, Burgess and Spence?

Elwood Lawrence's able *Henry George in the British Isles* (1957) recorded George's influence in the British Isles, the scene of his greatest triumphs. Among other things, Lawrence offers evidence to show why George was often misidentified with the doctrines of socialism and land nationalization: in the British Isles he often appeared on lecture platforms sponsored by the Fabian Society or Alfred Wallace's Land Nationalization Society and his vigorous attacks on poverty and social injustice identified him in the minds of many as some sort of extreme radical.

By far the most extensive scholarly treatment of Henry George is to be found in Charles A. Barker's recent biography (1955). Barker doesn't believe in personally evaluating the ideas or actions of his subject, but the few evaluations he does make raise eyebrows. For instance, he feels that if George had "admitted the rough-hewn rightness of the 160-acre—or 80-acre—homestead as democratic policy for the well-watered farming regions," he might have gained the support of the farmers, or at least have avoided their opposition.³⁷ But the reader may feel that the "rough-hewn rightness" did not remain so for long as landholdings gradually but inevitably concentrated into the hands of a few large-scale farmers. Furthermore, recent scholarship has shown that most of the land given out under the Homestead Act went to land speculators, George's nemesis as well as that of the farmers and society in general. Lastly, under this homestead policy the government did not receive a considerable land value tax revenue over the years to which, according to George, it was justly entitled.

Barker also chided George for not realizing that his ethical views required not merely the nationalization (!) of land but its internationalization by a world organization with power to tax.³⁸ The fact is that George sought to achieve international acceptance of land value taxation and free trade, visiting many countries in the campaign. Also, it may be unreasonable to chide George for not advocating world government prior to his death in 1897 or for not postponing his attempts to get land value taxation adopted in a particular town, state, or nation until a world govern-

³⁷ Charles A. Barker, *Henry George* (New York: Oxford University Press, 1955), p. 298.

³⁸ *Ibid.*, p. 302.

ment had been established. The fact is, of course, that George was ahead of his time in urging a league of nations.

In his brief evaluation of *Progress and Poverty*, Barker pointed to an alleged confusion, a contradiction, in George's thinking:

Progress and Poverty says, first, that under land-value taxation, Society would thus approach the ideal of Jeffersonian democracy, the promised land of Herbert Spencer, *the abolition of government*. Then, after explaining a bit, appears the equally strong hope that, "Government would change its character, and would become the administration of a great co-operative society. It would become *merely the agency by which the common property was administered for the common benefit*."³⁹

The contradiction is removed when we examine George's intervening explanation. After Barker's first quoted sentence, George wrote, "But of government only as a directing and repressing power," thus defining what he meant by the immediately preceding phrase, "*the abolition of government*."⁴⁰ George then explained that by simplifying and even abrogating most of the present government functions, thereby reducing governmental repressions of various sorts, we could then safely entrust the management of natural monopolies and certain welfare functions such as parks, museums, and schools to the government. With this explanation, the two sentences Barker quoted out of context are more naturally linked.

VI

Conclusion

THE EVIDENCE PRESENTED in this paper points to the rather surprising conclusion, then, that despite George's recently recognized importance as a prophet of social reform and arouser of America's social conscience in the new age of industrialism, his ideas have not been well understood by many historians. The principal source of difficulty has been a lack of knowledge about the mechanics of land value taxation, his central proposal. The result of this has been that many students of history have a distorted image of the man and his ideas. This is unfortunate, not only because a part of the American past has become obscured, but also because George's tax proposal has been advanced as a useful approach to urban renewal and as a relatively untapped revenue source for local government. The recent adoption in Hawaii of George's tax reform idea on a modified basis, as a state tax, lends current interest and importance to what he said. It is therefore doubly incumbent upon historians to clarify the record concerning Henry George.

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³⁹ *Ibid.*, p. 298.

⁴⁰ George, *Progress and Poverty*, *op. cit.*, p. 456.

Land Tenure in Peru: A CIDA Study

By JACOBO BRODSKY and JACOB OSER

Introduction

WHILE STUDYING THE PERUVIAN ECONOMY during June and July, 1967, we came across a fascinating book that is wrapped in an aura of mystery and intrigue. It is called *Tenencia de la Tierra y Desarrollo Socio-Economico del Sector Agrícola. Peru*. The title may be translated as *Land Tenure and Socio-Economic Development of the Agricultural Sector. Peru*. This volume of 538 pages was published by the Pan American Union, Secretary General of the Organization of American States, Washington, D.C., 1966. It is listed on the title page as "A CIDA publication," and in this article we will refer to it as "the CIDA study." "CIDA" stands for "Comité Interamericano de Desarrollo Agrícola." This organization is made up of the following: Organization of American States (OEA), Inter-American Bank for Development (BID), the Food and Agriculture Organization of the United Nations (FAO), the Economic Commission for Latin America of the United Nations (CEPAL), and the Inter-American Institute of Agricultural Sciences (IICA). CIDA was created at the time approval was given the Charter of Punta del Este, which also created the Alliance for Progress. Its fundamental purpose is to coordinate the activities of agricultural planning and agrarian reform.

One would think that a book issued under such distinguished sponsorship and published during the previous year would be readily available, but such was not and is not the case. Apparently the CIDA study was withdrawn from sale because it proved to be embarrassing to the large landowners, who are part of the oligarchy that dominates Peru. The book was not for sale anywhere in Peru. We were told, however, that it could be bought from the CIDA office, care of the Pan American Union, Washington, D.C., or from the Instituto de Capacitación E Investigación en Reforma Agraria in Santiago, Chile.

Our attempt to buy the book in Chile elicited a reply saying that the book was not available there but it could be obtained from the CIDA office in Washington. However, the Washington office of CIDA did not have any copies available.

We were finally able to borrow a copy of the CIDA study from a Peruvian government official.

The book is really the second edition of the CIDA study on land tenure in Peru. A first and much shorter edition was published sev-

eral years earlier. This was considered to be erroneous, pessimistic, too Marxian, and far too controversial and dangerous to circulate. The printing of the earlier edition was stopped, most of the distributed copies were recalled and destroyed, and the principal author, Ricardo Letz, was imprisoned. Being of a prominent Peruvian family, he was later released from prison and permitted to go into exile in France. Only two or three copies of the first CIDA study survived. The government official who lent us the second CIDA study claimed that he had a copy of the first, but he would not let us see it.

What follows is a free translation of certain parts of the CIDA study on land tenure in Peru. Our comments are limited to the footnotes and the concluding paragraphs of this review.

I

CIDA Study on Land Tenure in Peru

THE CHARTER OF PUNTA DEL ESTE called for agrarian reforms that would transform unjust systems of land tenure and exploitation of the soil. In place of latifundia and minifundia, just systems of property should be organized and there should be adequate credit, technical assistance, and commercialization and distribution of the products. The soil will then constitute, for the man who works it, a basis for economic stability that is fundamental to his well-being, and guarantee his liberty and dignity. The belief that agrarian reform could contribute to political stability is implicit in the Charter and makes understandable the importance which it gives to the problems of land tenure.

The principal hypothesis of this CIDA study is that existing systems of land tenure in Latin America, in which latifundia and minifundia predominate, can be modified to bring about more rapid economic and social development. A corollary which is derived from this hypothesis is that the existing systems of tenure frequently constitute an obstacle to development. Concretely, it is believed that intelligent reform of the existing tenure systems destined to redistribute the rights and benefits of property in favor of those who work on it will serve to:

- a. Create opportunities for social and economic progress of the least privileged groups of the agricultural sector, stimulating at the same time the social mobility and the integration of the national community.

- b. Promote a considerable improvement of agricultural productivity by better utilization of the soil, of the workers, and of the other resources used in farming.

- c. Stimulate economic growth by creating new patterns of consumption

and investment on the part of the beneficiaries of agricultural revenue.

d. Encourage the development of democratic institutions and processes in rural areas.

This CIDA study proposes to:

a. Describe the actual situation of land tenure, with special attention to the character and dimensions of the problems of minifundia and latifundia.

b. Investigate existing relations between land tenure and economic development, that is, to evaluate the working hypotheses that underlie this study, and to formulate other more precise hypotheses for future investigations and programs of action.

c. Establish criteria to evaluate programs of agrarian reform for Latin America and to measure the progress made toward the goals established by the Charter of Punta del Este.

II

Expansion of Latifundias in Colonial Period

MANY OF THE HACIENDAS in Peru originated during the colonial period. Others were established and grew during the republican era, often under the protection of the State. In addition, the government owns much land all over the country, but this has suffered constant diminution due to the absorption of State land by the haciendas through denouncements, concessions, or illegal appropriation. There has been no government policy against the expansion of latifundia.

The valley of Chicama, scarcely separated by a small dry plain from the city of Trujillo, is, for its extent and the richness of its agricultural production, one of the most important areas of the Peruvian coast. The area in farms is 120,000 hectares,¹ of which 39,000 are cultivated. The remaining area is cultivable but is not tilled because of the lack of irrigation.

The principal crop of the valley, we may even say the only crop, is sugar cane. Chicama produces approximately 45 per cent of Peru's sugar. In this valley, more than in any other area of Peru, a number of factors have determined the concentration of rural property for the benefit of the great sugar enterprises. Only four latifundias, Casagrande, Cartavio, Chiclín, and Chiquitoy, have among them about 90 per cent of the total cultivated area of the valley. According to the most recent available information, the land of Chicama Valley was distributed as in Table 1.

¹ A hectare is 2.47 acres.

Doubtless it would be of great interest to reveal how this extraordinary concentration of land has been achieved. Over the years successive groupings of dozens of operators of medium and large farms were displaced by the four enterprises mentioned above. Casagrande combined fifty-three farms, Cartavio seven, and Chiclín four. Apart from the latifundias which absorbed medium properties along with other latifundias, this concentration has also occurred at the expense of small properties. In Chicama Valley important nuclei of small properties and of communal land ownership were gradually reduced. In the process of absorbing these lands, the latifundists often utilized tempting offers, but in some cases they employed methods which can only be judged as

TABLE 1
DISTRIBUTION OF CHICAMA VALLEY LAND

<i>Name of Landed Property</i>	<i>Cultivated Area</i>		<i>Total Area</i>
	<i>Hectares</i>	<i>Per Cent</i>	
Casagrande	19,862	51.3	105,131
Cartavio	5,196	13.4	7,309
Chiclín ^a	5,270	13.6	n.a. ^c
Chiquitoy ^a	2,693	6.9	7,632
Chicamita y Santa Rosa ^b	900	2.3	n.a.
Sintuco y Sonolipe ^a	799	2.1	n.a.
Communities of small proprietors	4,012	10.4	n.a.
Total	38,732	100.0	

^a Grinding of the cane depends on Cartavio.

^b Affiliated with Casagrande.

^c Not available.

spoliation. A powerful lever to force small proprietors to sell was the illegal appropriation of their irrigation water. Such action was possible due to the control that the coastal latifundia had over claims to the headwaters of the rivers. Some communities tenaciously resisted this absorption.

The concentration of properties occurred mainly around the ancient farm, Casagrande. Cartavio is the second in area (including the area not cultivated), and it is affiliated with W. R. Grace & Co. of New York. Chiclín and Chiquitoy are dependent on Cartavio to grind their cane.

The business of Casagrande, owned by the Gildemeister family, is typical. In its expansion, and with the support of international financial capital, Casagrande not only absorbed the small farms of the valley, but also a great enterprise, that of Negociación Roma of the Peruvian entrepreneur Víctor Larco Herrera.

Within the valley of Chicama the process of Roma's expansion was

similar and parallel to that of Casagrande. By successive annexations of territory before 1927, Roma had obtained control of more than 15,000 hectares of cultivable land, and it had become the second sugar enterprise of the country. Considering the great amount of capital invested in it and its technical application in farming, it was indubitably comparable to Casagrande. But Roma lacked what Casagrande had: cheap capital and external connections which are typical of every enterprise that is financed by agencies of an international nature.

Roma, stimulated by the competition of Casagrande, had to acquire a new mill for grinding its cane at the same time that it had to renovate other mechanical equipment. The cost of acquiring modern machinery, along with a later fall in the price of sugar, especially during 1925, caused Mr. Larco to contract for financial commitments, including a credit of 2.5 million soles extended by the Bank of Peru and London. When the loan fell due Mr. Larco found himself unable to make payment. The loan was then acquired by the house of Gildemeister and Company, which terminated the credit and acquired the Roma land for 13 million soles.

The expansion of the Casagrande hacienda was not limited to the Chicama Valley. In the neighboring valley of Moche it acquired eight farms in 1937 with a total of 7048 hectares cultivated. In the same period in the valley of Jequetepeque near Chicama it acquired two farms with 3824 hectares of rice and cotton. Gildemeister and Company became the largest sugar company in South America and one of the largest, if not the largest, in the world. Alone it controlled about 30 per cent of the production of sugar in Peru. But the importance of this enterprise and its effects on the regional economy were not limited to controlling a great part of the national production of sugar. Constituted as a veritable "trust," it is the only agricultural undertaking in Peru that owns its own port (Port Chicama) for loading and exporting its products. It also imports machinery and other products for its own use. In addition, it uses its port to receive for itself big stocks of general merchandise which it sells in the great markets of its hacienda. This practice has had a very unfavorable effect on commerce and on the development of a middle class in the vicinity of the city of Trujillo.

Gildemeister and Company also acquired extensive properties in the mountainous regions of the departments of La Libertad and Cajamarca, inland from Casagrande, much of it for raising cattle and cutting timber. Altogether this enterprise owns more than half a million hectares of land.²

² With one hectare equal to 2.47 acres, Casagrande has more than 1,235,000 acres or 1930 square miles. This is almost as large as the state of Delaware, which has a land area of 1,900 square miles.

III

Cerro de Pasco's Land Acquisitions

A NOTABLE CASE of the concentration of landed property, involving the Cerro de Pasco Copper Corporation, occurred in the mountains. The concentration began with the installation of a smelting plant in 1922 in the village of La Oroya in the department of Junín. The smelter was situated in an inappropriate place, in a deep abyss in the gorge of the Mantaro River. The smoke of the plant had no outlet except through the agricultural valley of the river. The smoke was highly toxic since it contained mineral dust of arsenic, lead, zinc, antimony, and anhydrous sulfur. These poisons seriously affected the health of the nearby rural population and severely impaired the agriculture and livestock of the surrounding farms and communities. Many cases of lethal lead poisoning can be substantiated for this period.

Among the main crops damaged by the fumes were potatoes, barley, and pasturage. Lead and arsenic, deposited on pastures, caused death and sickness among grazing animals. During the time in which the most severe damage was caused, the average mortality due to the toxic action of the fumes was estimated as 18 per cent of the sheep, 14 per cent of the cattle, and 10–12 per cent of the horses. In addition, severe losses were experienced in the productive capacity of the cattle. According to official investigations made at that time, the total area affected by the fumes reached the extraordinary extent of 700,000 hectares in an agricultural zone which was considered the best in the central region of the country. Toward January 1924 four communities had been totally ruined and there was severe damage in others surrounding them. As one can imagine, such serious developments brought energetic protests from the people living in the affected region. A continuing series of claims arose against the Cerro de Pasco Copper Corporation that were not always settled with justice and the necessary rapidity. The government did not act quickly. It was not until April 1925 that a Supreme Resolution was issued compelling the corporation to install a system of recuperators of the Cottrell type to purify the fumes of the noxious elements in suspension. Part of the equipment was installed in 1925, but it was not until 1942 that the whole plant had recuperators; that is twenty years after the damage started. By then the company had found a singular solution to the claims of the surrounding communities and haciendas: it bought most of the land that had been greatly depreciated in value by the action of the fumes. Up to June 1924 the Cerro de Pasco Copper Corporation had bought most of the property in a radius of more than

thirty kilometers around the smelting plant. Much of the land was acquired below its true value from defenseless indigenous communities.³

Cerro de Pasco Copper Corporation was forced to pay indemnities to individuals and to communities for damages after their complaints had gone through interminable legal processes. It is estimated that these indemnities, along with the cost of installing recuperators and the cost of the land purchased, must have meant an outlay by the corporation of several million dollars. Many conjectures have been made regarding the corporation's motivations. The Peruvian agricultural magazine with the greatest prestige, *La Vida Agrícola*, said the following in an editorial of January 1924: "Not one person in Peru would believe that the Cerro de Pasco Copper Corporation, at the time of the installation of its smelting plant, was unaware of the effects that its bad location would create." According to that magazine, similar problems had earlier preoccupied North American opinion and in Peru other smelters had created the same problems although in much smaller proportions.

If these statements were so and if the corporation knew beforehand the damages that the fumes were going to produce, it is believed that the Cerro de Pasco Copper Corporation must have had the preconceived idea of obtaining the neighboring land to the smelter in order to establish there, as it actually did, a great agricultural enterprise. It is said—and declarations of a high functionary of that corporation in Peru seemed to corroborate it—that the enterprise wished to have in the areas around the smelter a large proletarian population that would assure it a permanent supply of labor for work in the mines and for the processing of minerals in the processing plants.⁴ Establishing its vast agricultural enterprise, the corporation was able to become a closed nucleus of great self-sufficiency in matters of food supply. The enterprise's prosperity is possibly due to the recuperating equipment that the company installed subsequent to the acquisition of the lands. It is true that not all harmful substances are removed from the fumes. Therefore the enterprise must bear certain damages, but these are offset by introduction of modern machinery and by efficient use of the acquired lands. It is pertinent to point out that some land belonging to the corporation has been subject

³ In *Moody's Industrial Manual, American and Foreign*, 1956, p. 1547, there is an obscure and cryptic comment that this discussion from the CIDA study may have illuminated: "[The Cerro de Pasco Corporation is] also engaged in stock raising and agriculture on large tracts of land which were acquired in settlement of damage claims arising from smelter smoke." (Incidentally, this enterprise is the one in which the William Randolph Hearst family fortune originated.)

⁴ The acquisition of land by the Cerro de Pasco Copper Corporation would thus be analogous to the enclosure movement in Great Britain.

to recent invasion by neighboring communities since the agrarian agitation started in Peru. All of the corporation's land was declared expropriable in October 1965 according to the prescriptions of the Law of Agrarian Reform 15037.

IV

New Concentration of Land Ownership in Jungle

A NEW AND FORMIDABLE CONCENTRATION of land ownership has been occurring in the unworked lands of the Peruvian jungle. The interesting thing about this concentration is that it has taken place due to land concessions on the part of the government.

In accordance with a law of 1889 the Peruvian Congress authorized the executive power to make concessions of land in the jungle region to liquidate debts which it had contracted during the War of the Pacific. In 1890 a committee of holders of bonds of external debt were given 2 million hectares of land, divided into four big lots of 500,000 hectares each. The bondholders transferred their rights to an English enterprise called the Peruvian Corporation. This company acquired 475,758 hectares of land located along the rivers Ene and Perené in the department of Junín. The rest of the 2 million hectares were never granted because the company failed to fulfill its obligation to have the land settled within a very short time. But the acquisition of almost half a million hectares by one company alone constituted an antisocial concentration of land in the Peruvian jungle.

When the Peruvian Corporation failed to meet its commitments, the concession should have been cancelled. But the company resorted to a series of manipulations of an administrative and judicial nature in order to retain the lands. Beginning in 1903, it sold important areas of land to Peruvians and gave parcels to the so-called improvers for planting coffee and other products. Once the coffee plantations started producing commercially the company recovered the land, paying the improvers unconscionably low prices. The company established the colony of Perené which was run as a truly feudal regime. A special pass was required in order to walk through the colony. The exits of the colony were closed to prevent the indigenous workers from escaping. Corporal punishment was used to discourage disobedience.

By Supreme Resolution No. 231 of May 18, 1965, the concession made to the Peruvian Corporation was annulled.

In 1952 the government of Odría made a concession of 400,000 hectares along the river Pachitea to the North American group of Le Tourneau of

Peru, Inc. Upon unloading the machinery required for work it had agreed to do, Le Tourneau would receive 60,000 hectares. The remaining 340,000 hectares would be given after Le Tourneau completed the construction of fifty miles of paved road and an airport by 1958. During the Prado government, Le Tourneau had not fulfilled its part of the contract. Nevertheless the government extended the deadline another five years.⁵

V

No Indication of Landowners in Census Data

THE AGRICULTURAL CENSUS of July 1961 revealed that Peru has 878,667 farms with 18,600,000 hectares. The census data refer exclusively to agricultural units, without any indication of their ownership. Consequently the census does not indicate the concentration of landed property at all.

TABLE 2
INDIVIDUAL LAND HOLDINGS IN PERU IN 1961

<i>Size of Holdings (Hectares)</i>	<i>Number of Holdings</i>	<i>Per Cent of Holdings</i>	<i>Total Area (Hectares)</i>	<i>Per Cent of Land</i>
Under 1	277,895	34.4	120,675	0.7
1-5	395,061	48.9	877,551	5.4
5-20	101,115	12.5	827,162	5.0
20-100	23,374	2.9	926,344	5.6
100-500	7,374	0.9	1,459,541	8.9
500-1000	1,415	0.2	963,324	5.9
1000-2500	1,020	0.1	1,507,242	9.2
More than 2500	965	0.1	9,749,935	59.3
Total	808,204	100.0	16,431,774	100.0

The census, for example, considered the plots of land of the Indians on a hacienda as independent units, although the hacienda could be in the hands of a sole owner. Conversely, a single agricultural unit of the census could have more than one owner.

In 1961 private individual holdings made up 94.9 per cent of the holdings, and they contained 88.3 per cent of the land in farms. The remainder was land in various types of community landholdings. Of the individual landholdings, the distribution of land was as in Table 2.

Another important proprietor is the Catholic Church. Unfortunately no central office of that institution has offered precise information, or seems

⁵ Up to the present, Le Tourneau has been unable to have its land settled according to the contract. The government did not cancel its concession because Le Tourneau, instead of profiting from its venture, lost \$4 million in its economic and religious activities in Peru.

to have it, on the amount of land it has. The Catholic Church in Peru acts like a typical landowner. In general it has its latifundias rented, receiving for them small rents. These latifundias are chiefly worked by traditional methods of extensive cultivation.

In the private sector of landholding, a relatively high proportion of the holdings are by foreign firms. These foreign firms have acquired some farm enterprises of great importance due to their magnitude, their volume of specialized production, or their location. It can be considered that foreign groups have approximately 10 per cent of the total area in farms

TABLE 3
LANDHOLDINGS OF MAJOR FOREIGN ENTERPRISES

<i>Name of Enterprise</i>	<i>Area (Hectares)</i>		<i>Principal Product</i>
	<i>Total</i>	<i>Cultivated</i>	
<i>Grace and Company</i>			
Compañía Agrícola Carabaylo	7,309	5,196	Sugar cane
Sociedad Agrícola Paramonga Ltda.	n.d. ^a	7,203	Sugar cane
<i>Gildemeister and Company</i>			
Coastal land	105,131	32,213	Sugar cane
Jungle land	420,000	n.d.	Cattle
<i>W. and J. Lockett</i>			
Negociación Azucarera Nepeña	n.d.	3,875	Sugar cane
<i>Anderson Clayton and Company</i>			
Hacienda Atalaya	n.d.	900	Cotton
<i>Alexander Eccles and Company</i>			
Hacienda San Luis	n.d.	700	Cotton
Cerro de Pasco Copper Corporation	320,000 ^b	n.d.	Cattle
Le Tourneau, Inc.	400,000	n.d.	Cattle

^a No data.

^b Other sources have raised this figure to 500,000 hectares.

in the country, including 8 per cent of the irrigated lowlands of the coast and no less than 70 per cent of the area planted in sugar cane.

Table 3 shows the area of land in the hands of the major foreign enterprises and their principal products.

VI

Interrelation between Land Tenure and Social Conditions

ACCORDING TO OFFICIAL CALCULATIONS by the Ministry of Education, in 1963 about 1,233,353 Peruvian children of school age could not go to school because of lack of schools and teachers. This figure represented approximately 40 per cent of the student population of Peru. Between the structure of land tenure and education there is an interrelation which

cannot be doubted. The agrarian structure of the country makes the promotion of education very difficult, even at its most elemental level. This is due to the low level of income of the majority of peasants and the non-fulfillment of the promises of the owners and overseers to provide schools for the children of their workers in the latifundias and, until recently, due to the insufficiency and bad distribution of state educational investments resulting from the feudal mentality predominant in the governing class.

Illiteracy and the lack of a good agricultural education make it very difficult to adopt modern and adequate agricultural techniques. They constitute a formidable obstacle against which the efforts to better the productivity of agriculture collide. Another obstacle to the expansion of education is that in a large part of the country the population does not speak Spanish, even though the Spanish conquest took place more than four centuries ago. Almost a third of the inhabitants of Peru speak only Quechua or Aymara. Spanish is for them a foreign language, hard to learn. And if they do learn how to read and write that language, it is of little use because their level of income does not allow them to acquire books, magazines, or newspapers. Among their family members and in almost all their dealings they can use their vernacular language. Besides, the things they learn in school do not apply to the requirements of the agrarian society. Generally the subjects studied in school are far removed from the realities of agriculture and the education which is given is extremely academic. All these factors contribute to the fact that in a few years after leaving school the peasants forget the little knowledge they have acquired there. Although it may seem surprising, they even forget how to read and write.

Numbers of schools are so poorly located that children have to walk long distances in order to attend classes. Cases are not rare where children have to walk between two and three hours to get from home to school. This is one of the reasons why in rural areas children start to go to school at an older age than elsewhere. Absenteeism is high, especially during planting and harvesting times. In addition, the landowners frequently fail to fulfill the constitutional obligation to provide schools at the centers of work.

Because the departments with the greatest rural population have the highest percentage of adult illiteracy, the logical thing would be to dedicate the greatest efforts to better the educational situation there. It does not, however, happen this way. Those departments with a high proportion of rural people and adult illiterates also have the largest number of children of school age who remain out of school due to lack of classrooms and

teachers. According to figures of the Ministry of Education, in the departments which have more than 70 per cent rural population, more than 50 per cent of the children of school age do not attend school. In the departments that have under 35 per cent rural population, less than 15 per cent of the children do not attend school.

With his practical intelligence the peasant understands well, however, that one of his best instruments for emancipation is education. A high percentage of petitions which peasants make to the public powers refer to requests for schools. Frequently with the petition sent to the educational authorities or to the parliamentarians, the peasants offer a site or money and free labor for school construction. There also are hundreds of cases of peasant groups supporting with their own means small private schools in the most remote places of the country.

In rural areas poor diets and poor health predominate. The deficiency of food in the south of Peru means a loss of 54 per cent of working capacity. Morbidity is very high. The rate of mortality is also high due to certain sicknesses which in urban centers are no great danger, although that rate has been falling in recent years. The peasant finds himself out of the radius of medical assistance, private or State. For the country as a whole there is one doctor for every 2296 inhabitants and one nurse for 5880 persons. In Lima there is one doctor to 578 persons and one nurse for every 1500. In Puno, however, a department with a high proportion of rural people, there is one doctor for every 25,553 persons and one nurse for 148,000.

In the coastal region practically everybody who needs medical assistance obtains it. But only 75 per cent of the people in the mountains who need medical care get it, and only 50 per cent of those in the jungle. In quite a few cases in the mountains and jungle, the peasant who does obtain medical assistance cannot buy the medicines prescribed.

VII

Water Rights Also in Hands of the Few

WATER IN WESTERN PERU is a scarce resource. Those few hands into which land ownership is concentrated are also the hands that own and control the water resources for irrigation. The distribution of water is unjust and does not follow technical criteria. The laws concerning water were formulated in 1902. The system permits the abuse by those property owners who, finding themselves in the high parts of the valleys, enjoy the right of control over the headwaters. In Peru water is not distributed by volume or in accordance with the type of soil. The distribution of water

in the valleys follows the dominant influence of the big haciendas. Frequently a big hacienda has been formed on the basis of the possession and control of water. It is also common that a big property owner will let his extra water go to waste. He will throw it into a canal which makes it useless for his neighbor before he will permit the neighbor to utilize it and perhaps afterward demand it as a right. There are also cases of landowners selling their land but retaining the right to the water in order to obtain water fees from those who use the land for cultivation.

The latifundia class states frequently that the concentration of landed property in the Peruvian coast is necessary to make better use of the scarce water of the rivers. This is an argument which many agrarian engineers give, and also the Commission for Agrarian Reform and Housing. But the argument is not valid. With only a few notable exceptions, almost no small properties in the valleys have enough water. Besides, as has been discussed above, in the valleys where water is scarce, the latifundists were shrewd enough to take possession of the high lands in order to become the owners of the rights to the headwaters.

In Inca times the area irrigated was much greater than at present. This decrease is due to the agrarian regime imposed during the conquest. Peru could double its irrigated area with the water flowing from the Andes to the Pacific. Now 650,000 hectares are being cultivated, but this number could be increased to 1,300,000 hectares by fully utilizing the available water.

Only farms that produce for export have adopted modern techniques of production. Locally consumed crops have been neglected. There have been cases in the past when the State was interested only in the technology of agriculture in which the big landowners were also interested—cotton, sugar cane, rice, wool, and milk. Technical teaching and research were concentrated mainly in these areas. Very little official interest was displayed in the enlargement of the cultivable area because the big landowners feared that such increase would diminish the value of their properties or would make labor more expensive. This policy created economic and social problems and political ferment. Then a change occurred in government circles. Colonization and irrigation projects were started and improved cultivation of foodstuffs for local consumption was undertaken. However, such a change of attitude came in very late and the situation continues to be a problem.

Comments

THIS COMPLETES the summary translation of certain significant parts of

the CIDA study. Areas covered in the book but not reported in this review article include: general characteristics of Indian communities in the mountains; general characteristics of systems of tenure in the mountains; case studies of agricultural units in the mountains; a study of some Indian communities in Puno; structure of land tenure in the jungle; general characteristics of systems of land tenure in the jungle; agricultural credit; land reform—laws and performance—and tendencies of agricultural development and its contribution to internal consumption and national income.

The content of this CIDA study and the successful efforts to suppress its circulation indicate that there is a powerful oligarchy which dominates Peru. Actually a continuing struggle exists within and outside the government between the rich and the powerful on one side and the poor and lowly on the other. A few illustrations will be given here to show that the oligarchy of Peru has had considerable success in dominating the country to its own advantage.

Now that the government is pushing economic development in the Amazonian drainage basin in eastern Peru, the land grabbers are registering their ownership of jungle land at a rapid rate. It does not matter that the Indians have occupied the land for thousands of years. As they have no written and registered titles of ownership, the land is being taken away from them. There are defenders of the Indians' rights to their land, but they have to fight not only the powerful land grabbers and their friends in Lima, but also local government officials who favor the new landowners and speculators.

The whole program of land reform, already enacted into law, is moving ahead very slowly for several reasons. First, inadequate funds are appropriated for its implementation. Second, full value is being paid for land even if it is idle and was acquired for nothing decades ago. Third, there is much political infighting within the government to sabotage the law. Fourth, the law has specifically excluded the sugar haciendas from agrarian reform.

The shortage of funds for agrarian reform can be attributed to widespread corruption in government, of which all Peruvians are aware, to the high priority given to large military expenditures, to the peculiar rates of taxation, and to widespread illegal tax evasion by the wealthy.

In the fiscal 1967 budget, military expenditures of \$177,000,000 make up 18 per cent of the total budget. This sum is larger than the total capital outlays of the central government.

The tax rates in Peru are peculiar, as the following examples will show. In a country where in 1966 the average per capita gross national product

was the equivalent of \$415, a family of six people would get a \$10,000 exemption from income tax. Thereafter the rates rise from 7 to 30 per cent on the first \$2800 of taxable income. Above that the rate remains at 30 per cent. But if the individual receives income from interest on money lent, that income is taxed at 13, 16, or 20 per cent, depending on whether the interest rate he charged was under 9, 9 to 12, or over 12 per cent.

Profits from commerce, industry, and mining are taxed at a maximum of 35 per cent. Taxes on urban and rural property are negligible and fully deductible from the income tax owed. But as people object to paying income taxes they also object to property taxes. People in government, business, and education think that of all taxes levied (including tariffs), not more than 50 per cent is paid. There was surprising unanimity on this guess.

In 1966 for the first time in Peru's history and for the second time in Latin American history a man was arrested for cheating on income taxes. He had paid a total of \$80 over a four-year period when he should have paid \$74,000. The government collected half the sum owed and forgave the other half.⁶

We know of a well-authenticated case of a government official high in the income tax department advising a businessman to reduce his reported income because "we can't check on you, so why pay it?"

The Central Reserve Bank of Peru reports that the yield of the profits tax has fallen from 26 per cent of total profits in 1960 to only 16 per cent in 1965, owing, probably, to a more frequent use of tax exemptions that are intended to promote economic development. "The appreciable rate of tax evasion also discloses the existence of a margin for increasing revenues." The total tax burden in 1966, including central and local governments and contributions to social security, amounted to 15.1 per cent of the gross national product. This is an amazingly low proportion.⁷

American workers are accustomed to wages having a very high priority on claims to assets in case of bankruptcy. Not so in Peru. There, "the rule established by law for the priority in payment from the proceeds of specified personal property is as follows, one class excluding the others until their credits are fully paid": 1. Landlords. 2. Innkeepers. 3. Carriers and shippers. 4. Renters of ships. 5. Insurers. 6. Customs duties payable. 7. Construction costs. 8. Commission fees. These apply to specified personal property. With certain types of real property, the fol-

⁶ *Peruvian Times*, No. 1354 (December 2, 1966), p. 12.

⁷ Banco Central de Reserva del Peru, *Economic and Financial Review*, No. 16 (Jan.-Feb., 1967), pp. 9, 20.

lowing priorities are established: 1. Taxes due. 2. Mortgage credits. 3. Ground rents recorded in the Property Register. The remaining real and personal property of the debtor is used to pay the following: 1. Judicial costs of the bankruptcy. 2. Judicial costs owed by the debtor for defending his assets during the year previous to the declaration of bankruptcy. 3. Wages of servants, workers, and clerks of the debtor, and any indemnity compensation due them according to pertinent laws.⁸

In Peru the top 10 per cent of the spending units receive 60 per cent of the disposable income. Only 8760 spending units, one-fourth per cent of the total, receive 35 per cent of the income. This distribution of income is more unequal than in any other developing country for which comparative information is available.⁹

The oligarchy in Peru insists on the complete absence of exchange controls, on the full convertibility of their currency. Thus Peru, the most attractive country in Latin America from the archeological point of view, received \$33,500,000 from tourist expenditures in 1966. Peruvians at the same time were spending abroad for tourism, students living abroad, and family remittances a total of \$45,900,000.¹⁰

With no restrictions, other than tariffs, on imports of goods and services, total imports in 1966 exceeded exports by 21 per cent. In addition to luxury imports, Peruvians were free to transfer their wealth out of the country without restriction. In the Peruvian balance of payments imports include an estimate of smuggling to evade tariffs. It is generally believed that "net errors and omissions" represent capital sent out of the country. In 1966, while net errors and omissions or capital exports were U.S. \$51.6 million, the inflow of private long-term capital was only \$33.7 million. Because of the great demand for foreign currency and because Peruvians were speculating against their own currency by buying dollars, the sol was depreciated by 48 per cent during September and October 1967. Prices were raised immediately so that the cost of living went up 30 to 40 per cent during the same months. The Central Reserve Bank underreported the rise in the cost of living, saying it rose 16 per cent, and wages and salaries went up 10 per cent.

If the common man in Peru were inclined to change the status quo, he would find that he is barred from voting if he is illiterate and also if he lacks a birth or baptismal certificate. His children cannot go to school

⁸ Hernando De Lavalle, *A Statement of the Laws of Peru in Matters Affecting Business*, 3rd ed. (Washington, D.C.: Pan American Union, 1962), pp. 33-34.

⁹ *Journal of Inter-American Studies*, Vol. 9, No. 1 (January 1967), p. 85.

¹⁰ International Monetary Fund, *Balance of Payments Yearbook*, Vol. 18, 1967.

without a birth or baptismal certificate. Illegitimate children are therefore very likely to be excluded from both school and voting. In the mountains, where the peasant may work for as little as U.S. 20 cents per day and the use of a piece of land, the high death rate among children and the cost of a birth certificate induce the non-registration of babies, thereby handicapping the survivors for life. Forty per cent of the people in Peru are illiterate and they are therefore barred from participation in the electoral process. Among rural people 60 per cent are illiterate.

The CIDA study and its suppression is another of many examples showing that the oligarchies in Latin America refuse to concede anything toward the amelioration of conditions.

Lima, Peru

and

Utica College of Syracuse University

Record of the Peace Corps

STILL GROWING, the Peace Corps has more than 14,000 men and women at work in 57 countries.

In Latin America, largest of all Peace Corps regions, 8,569 volunteers have served in 19 countries. The major emphasis in this region is on community development projects.

As of June 30, 1967, the Peace Corps was represented in 19 sub-Saharan nations with 3,427 volunteers. For the first time volunteers took up their duties in Botswana, Chad, and Mauritania, and new programs were announced for The Gambia, Upper Volta, Lesotho, and Dahomey.

Volunteers in nine nations of the North Africa-Near East-South Asia region were engaged in education, tuberculosis control, public housing, and municipal engineering.

In India most of the 1,133 volunteers are working to solve the country's food production and nutrition problems.

In the East Asia/Pacific area, the much-heralded program for Micronesia has begun. Volunteers are assigned to teaching, health, and public works in the island chain that stretches over 3 million square miles of the Western Pacific.

The first volunteers (92) also arrived in Korea. Western Samoa has volunteers working in education, public health, public works, agriculture, and community development. [From the U.S. Department of State.]

Some Accomplishments of Mutual Aid

SOME OF THE accomplishments of the Alliance for Progress in Latin America to date are:

The reclaiming and irrigation of about 2.5 million acres of agricultural land.

More than half of the 104 million Latin Americans who lived in malarious areas 5 years ago now are free from the risk of malaria.

Eleven countries have opened educational planning offices. Total enrollment in Latin America's primary schools has risen by 23 per cent, secondary school enrollment by 50 per cent, and university enrollment by 39 per cent since the Alliance began.

The Central American Republics have joined the Agency for International Development (A.I.D.) in a regional program which produced and distributed more than 8 million textbooks for free use in elementary schools.

Latin America's wage earners and small businessmen are lending active support to the more than 17,000 cooperatives which mushroomed in the last few years.

New construction and improvements of some 15,000 miles of roads.

250,000 dwelling units completed or under construction. Through their own resources, local public agencies and private interests in Latin America are building an estimated 400,000 dwelling units per year.

More than 29,000 classrooms accommodating 1,200,000 students have been built. The total number of students enrolled in A.I.D.-assisted schools has passed the 3 million mark.

Sanitary, piped water supplies are now available to 70 per cent of Latin America's urban population, but the goal of such service for 50 per cent of the rural population lags behind. About 1,800 water systems, serving an additional 10.5 million people, have been added under the Alliance.

Ninety-six mobile health units operating in Chile and six Central American countries provide health care and counsel to rural families. In addition 1,200 Alliance for Progress health clinics are helping to meet the facility shortages in hospitals. [From the U.S. Department of State.]

Jewish Agricultural Colonization
in Entre Rios, Argentina, II*
*Religious-Oriented Social Institutions
Amid East European Ghetto Culture*

By MORTON D. WINSBERG

I

Cultural Environment

FROM THE BEGINNING the Jewish Colonization Association (JCA) and the inhabitants of the colonies in Entre Rios, Argentina, worked together to establish a Jewish cultural environment similar to that left behind in the ghettos of East Europe. Despite the vast difference between the two areas, they were surprisingly successful, at least in the early years of colonization. This was largely because the colonies were so big and the number of Jews living within them sufficiently numerous during the early period of colonization to eliminate the need for extensive social contact with Christians. In many cases the Jews, who spoke Yiddish when they arrived in Argentina, were so impervious to outside influence that even after years of residency in Argentina they still could not speak Spanish, or could do so only with great difficulty. Not infrequently the local gauchos, who worked for the Jews as laborers, had to learn some Yiddish to communicate.

A rich social life quickly developed, especially in the villages. At first most social institutions were religiously oriented, since the majority of Russian Jews who arrived were highly observant of religious practices. Small synagogues and religious schools were built, both in the towns and in the country, and provisions were made for the ritual slaughter of animals to provide kosher meat. The most important social events of this period, aside from solemn holidays, were weddings. These were sometimes celebrated for days.

The social life in the three older Entre Rios colonies was enhanced by the use of the village system of rural settlement. Agricultural villages had never been used in Argentina, where the people lived on the land they farmed. However, the agricultural village system was used in East Europe, and the association believed that the colonists would be happier living within such a village, even though it recognized that agricultural efficiency would have to be sacrificed.

* Cf. "Jewish Agricultural Colonization in Entre Rios, Argentina, I," *American Journal of Economics & Sociology*, Vol. 27, No. 3 (July, 1968).

Originally the agricultural villages were composed of as many as fifty families. This proved totally impractical, even though social institutions could develop with ease. Farmers with land far from the village found it difficult to till, since so much time was spent in traveling between their land and the village. The association then turned to establishing smaller villages, some having as few as four families. However, these proved too small for the establishment of social institutions. Eventually most farmers who had been settled in agricultural villages abandoned them to live on their property. Today there is little evidence that agricultural villages ever existed within the three older colonies. The association installed each colonist on his own land in the two newer ones.

With the abandonment of the agricultural villages many rural social institutions could no longer survive. One by one the rural synagogues and religious schools fell into disuse. Roads were poor in the colonies even when the ground was dry. They were often impassable when wet. With no other means of transportation except horse and buggy, the colonists who went to live on their land quickly became as culturally isolated as the typical rural Argentine, who often lived too far from a school to send his children, rarely attended church because of the distance, and found it difficult even to break the dull monotony of his life by an occasional visit to the nearby village.

While the social institutions in the rural areas quickly withered and often disappeared entirely, those in the towns continued to thrive. Small market towns were dispersed throughout the various colonies, and most supported at least a few Jewish cultural institutions. However, either within or near each colony one major town came to acquire a wide range of Jewish social institutions. Basavilbaso, situated in the center of Lucienville, was the cultural center for that colony. Villaguay, which is located several miles west of Clara, assumed the major cultural functions for that colony. The large city of Concordia, though situated thirty miles from Santa Isabel, became that colony's major cultural center. Cohen-Oungre and Avigdor, situated close together, developed most of their social institutions in the towns of Alcaraz and Bovril.

All these urban centers had existed before the colonies were established. Even during the period of maximum Jewish population within the colonies Jews were a minority in all of them with the exception of Basavilbaso. Basavilbaso throughout the first three decades of the twentieth century had a Jewish majority. Though its total population was only about five thousand during this period, its fame as a Jewish center had spread so widely that many Jews who arrived in Argentina went directly to it, know-

ing they would find an atmosphere almost identical to that of the ghettos they had left in Europe. The town came to be known throughout the province as *Varsovia Pequeña* (Little Warsaw).

II

Assimilation

IN THE EARLY DAYS of colonization anyone living in one of the Jewish colonies would have had to make a purposeful effort to assimilate into the Argentine environment. The Jews borrowed little from the region they were living in. Some even brought over agricultural equipment from Russia, though it usually proved unsuitable for agriculture in Entre Rios. The resistance of the Jews to the local culture was understandable. They brought with them a culture far more sophisticated than that of the people they settled among. At the turn of the twentieth century rural Argentina differed little from the brutal and savage period of fifty years previous which has been described so well by the great Argentine statesman Domingo F. Sarmiento.¹⁰ In time the Jews began to accept some of the local cultural practices. First they accepted agricultural techniques, since most had had little experience with agriculture before they arrived. Later they came to accept the clothing of the rural Argentine, the regional architecture and diet. In the case of the diet, the Jews readily accepted the Argentine emphasis on meat and wheat in place of the starch-rich diet of East Europe. Even though there was a gradual acceptance of local practices, it was to be years before the colonies began to assume a typically Argentine appearance.

The JCA sponsored a network of educational facilities with the Entre Rios colonies. These facilities were denounced in 1911 by several high provincial school officials as devoting an insufficient amount of time to subjects related to Argentine culture.¹¹ In its defense the association stated that with the absence of any support from either the provincial or national governments it had undertaken the expense of building and staffing all the schools in the colonies. In addition, it had paid the salaries of the teachers until the colonists could do so themselves. Though it did not deny the importance religion played in the curriculum, the association was able to demonstrate to the satisfaction of two visiting governmental commissions that the students were given adequate exposure to subjects

¹⁰ Domingo F. Sarmiento, *Life in the Argentina Republic in the Days of the Tyrants, or, Civilization and Barbarianism* (New York: Colliers Books, 1961).

¹¹ Jedidia Efron, "La Obra Escolar en las colonias Judías," in *50 Años de Colonización Judía en la Argentina* (Buenos Aires: DALA, 1939), pp. 241-62.

related to Argentine culture. Despite this, in 1916 the association turned over all its educational buildings to the provincial government without charge. However, provincial law states that no religious instruction may be offered in any provincial school. As a result, the association and the colonists together contributed to the construction of a number of new religious schools.

Actually, the success of the secular education program was at least partially responsible for the rapid decline of the Jewish population within the colonies. European Jews commonly attach far greater importance to education than the people they live among. The professions have been especially desirable occupations, and parents often make great sacrifices to educate their children. Some attribute this emphasis on education to the economic uncertainties of life for the Jews in Europe, and the feeling that if they were forced to emigrate, with a profession they could re-establish themselves faster than with none.

Most parents within the colonies have retained this attitude toward education and make a far greater effort to educate their children than the average rural Argentine. Today primary schools are available in all parts of the colonies and secondary schools are situated in the nearby larger towns. Each year many young people leave the colonies, with the encouragement of their parents, to advance their education in Buenos Aires, Paraná, or other large Argentine cities. The Entre Rios colonies have made a surprisingly large contribution to Argentine cultural life through the children of her colonists. Among the many who have gained national fame are: Alberto Gerchunoff, a leading political commentator; Enrique Dickmann, one of the two founders of the Argentine Socialist party; José Liebermann, internationally famous entomologist; Juan Tenenbaum, a leading Argentine agricultural economist; and Samuel Eichelbaum, famous playwright and stage and film director. These youth, in addition to many less famous, had gone to the city for their education. However, few who leave ever return to resume life in the colonies.

III

Urbanization

BUT THE DECLINE in the population of the colonies would not have been so great were it only confined to the youth. Many older people also abandoned them to go to the cities. Argentina during the twentieth century has offered far greater economic opportunities to those living in the cities than those in the country. Several administrations have actively encouraged industrialization with protective tariffs, often at the expense of

the rural economy. The rural Jews of Entre Rios were much better equipped to make the move to the cities than other rural inhabitants of the province. Most never developed a strong attachment to rural life, and many retained urban skills acquired in Europe. In addition, most had more affluent relatives or friends in the cities who were willing to help them establish themselves if they chose to move there. At first the majority who abandoned the colonies were those who were not given land. Later, many began to leave who had been granted land but who had not acquired title to it. Finally, the lure of the city became so great that many who owned their land and had clear title to it either sold or rented it and left.

In 1958 the JCA instructed its representatives in the colonies to levy a special census. The census of Entre Rios colonies was less accurate than the rest, since by that date the association had divested itself of most of its land in the province. However, despite its inadequacies, the census does illuminate certain trends. In 1958 slightly more than 60 per cent of all the children over twenty, from landowning families still living in the colonies, were living outside the colonies. The vast majority of these children were living in Buenos Aires, but nearby cities such as Paraná, Concordia, and Concepción del Uruguay also had attracted many. Most of these children were employed in commerce and industry, but as testimony to the importance the colonists still attach to education, a large number were attending institutions of higher learning.

An urban trend of the landowners is also discernible from the Census of 1958. This represents more than just the movement of landowners to cities far distant from the colonies, but also to nearby towns. Many older colonists retire to these nearby towns, where there are greater social amenities, leaving the operation of their farms to their children. In the event that all the children have left for the cities, a frequent case, the retired colonist usually leases the land or sell it. Many colonists farming on small acreages no longer depend on agriculture. Instead, they move to nearby towns to open up businesses or seek employment, and either operate their farms from town through hired labor or lease them. A small number still work their own farms, commuting from their urban homes by automobile. More would do so if they could afford an automobile, but to most this is still well beyond their resources. In 1958 over 40 per cent of all enumerated landowning colonists lived off their property, usually in nearby towns such as Basavilbaso, Villaguay, Concordia, Alcaraz, or Bovril. The percentage was greatest in the older colonies and least in Avigdor and Cohen-Oungre, where the colonists have only re-

cently received title to their land and the nearby towns are so small that they lack economic opportunity for one interested in part-time urban work.

Today the Jews who remain in or near the Entre Rios colonies are so reduced in numbers and have become so assimilated that the old Jewish social organizations either have become dormant or are facsimiles of those of the Christians. The religious organizations are now so weak that no colony in the province is able to support a rabbi. Nevertheless, religious instruction is available in all of them, though in all five there were only six religious courses taught in 1960, with a total enrollment of 179 students. Religious emphasis appears to be dead, the older Orthodox Jews having been unable to transmit their religious fervor to their children. Without the benefit of Reform or Conservative Judaism, which permitted continuity of the Jewish religion in twentieth-century United States, that religion died in rural Argentina. Despite the lack of religion, the Jews in the colonies maintain their Jewish identity through the continual use of Yiddish, still widely spoken there today. Assimilation has gone on to such a degree among the Jews that not only have all sports clubs and youth groups absorbed the Christians who have been entering the colonies as the Jews have left, but the *Centros Culturales Israelitas* (Jewish Cultural Centers) of some of the colonies have opened their memberships to Christians in order to survive. Many of the Jewish boys who wish to continue farming find it impossible to marry within the religion, since a frequent stipulation for marriage made by Jewish girls is they have to live in a city. As a result, intermarriage is now quite common.

(Continued)

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Individual Responsibility in Protest

EACH MAN AS AN INDIVIDUAL should be prepared to be publicly associated with his cause. He should be willing to assume a share of the responsibility for the group's actions. It then falls to the leaders to direct their actions productively.

I cannot help but believe that the leaders of any organization have it within their power to guide their public assemblies along peaceful and constructive lines rather than inflaming already passionate emotions to a point where violence often follows. And part of the secret of such control lies in maintaining the individuality of each person in attendance rather than submerging all identities into an anonymous mob. [From an address.]

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C O M M E N T

On Morris's Reexamination of Land and Rent Theory

By RAYMOND JACKSON

IN HIS ARTICLE discussing the economic theory of rent, R. E. Morris¹ presents only part of the theory and therefore several of his concluding remarks are perhaps not completely warranted.

In Morris's exposition of the theory of rent he correctly ties the level of rent to the marginal productivity of land and the supply of land. The marginal productivity of land depends on the capital and labor employed in the productive process. The supply of land is assumed to be fixed with land having no alternative use. No payment of rent is therefore required to secure the use of land for production in the economy as a whole. However, Morris neglects to include in his reexamination an important point concerning the nature of rent. While the price of labor is wages and the price of capital is interest, the price of land is rent. Therefore, rent in the economy performs the role of the price of land. As the price of land, rent performs two important functions: (1) it rations out the supply of land among competing uses, and (2) it serves as a guide to the most productive allocation of the economy's resources of land, labor, and capital for present and future use.

These above functions of rent, the price of land, help clarify Morris's conclusions. He states that total production is reduced by rent.² This cannot be so according to the theory of rent. With a fixed supply of land the role of rent is to ration the availability of land among alternative uses. If one industry has land bid away from it, then its production will decline. On the other hand, the industry willing to pay the higher price for land, because of its higher productivity in that particular use, will have its production increase. The increase in rent will in turn stimulate the substitution of labor and capital for the relatively scarce resource land. It will also encourage the development of technological improvements which are land-saving and in a sense conserve land. Land will be brought into production until the value of the capital and labor used

¹ R. E. Morris, "Land Question: The Theory Reexamined," *American Journal of Economics and Sociology*, Vol. 27, No. 2, (April, 1968), pp. 147-54.

² *Ibid.*, p. 153. Morris writes, "Wages, interest, and production are reduced by rent, squeezed between the market prices of the products of labor and capital and rent paid out or imputed." He goes on to say, "These adverse effects on production seem more pronounced in agriculture . . ."

on the last unit is equal to the value of the additional output obtained. Hence the payment of rent rations the available land by setting a higher price on the more productive land and a lower price on land which is less productive. Total output therefore depends on the productivity of capital and labor on the land and not on rent payments.

Real consumer buying power will not necessarily be reduced due to an increase in rent, as Morris asserts.³ Higher rents may cause some prices to rise, but the transfer of land to more productive use may cause prices of other products to fall. If prices of goods which use large amounts of land in their production increase relative to prices of other goods, this is due to the greater scarcity of land rather than the payment of rent which merely reflects this scarcity.

In addition, Morris considers the role of rent in keeping land unused.⁴ This implicitly assumes that land committed to a certain use cannot be transferred to another purpose in the future at an economically feasible cost. He argues that this withholding from production in anticipation of higher rent retards and curtails community development. The existence of vacant lots is cited as an example of this waste. This line of reasoning ignores the complex role prices play in allocating resources between present and future use. For example, if the productivity of capital goods increases, firms will require additional funds necessary to construct them. The rate of interest will rise in order to persuade households to increase savings. The increase in the interest rate encourages households to consume less now in order to consume more in the future. This enables firms to invest in capital goods for future production. The payment of rent operates in the same manner. If the productivity of land is expected to increase, higher rents will be anticipated in the future. The landowner's income will be less now if he chooses not to commit his land to current production. In the future his income will be greater due to the higher rent. As a result, in the future, the community has the maintained land available for the relatively more productive use. Without the anticipation of higher rents the land would have been already committed to some less productive endeavor and total welfare thereby reduced. The existence of vacant lots is no more an obvious indication by itself of economic waste than is the existence of thousands of acres of timberland yet uncut.

³ *Ibid.*, p. 153.

⁴ *Ibid.*, p. 154. Morris maintains, "Land purchased in advance of anticipated growth of the community, or withheld from production in anticipation of higher rent, retards and curtails community development."

Finally, Morris suggests that payments for rent can be associated with some type of cost-push inflation.⁵ Unfortunately such a conclusion is unwarranted. Unlike the ownership of capital which is highly concentrated in some manufacturing industries and the supply of labor which is tightly controlled in some cases, market conditions controlling the demand and supply of land are essentially competitive. Ownership of land is widely distributed among governmental units, corporations, individuals, and non-profit institutions. No one buyer or seller can exert much market power over the price of land except, of course, the government. Therefore there is no reason to suspect rents as a factor in cost-push inflation since an essential ingredient—the ability to exercise market power—is absent.

In conclusion, the development of public policy toward the existence of pure economic rent and the use and limitations of the private ownership of land requires careful application of a theory of rent. Any such theory which excludes the role of rent as a factor in rationing and resource allocation is necessarily incomplete.

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⁵ *Ibid.*, p. 154.

REJOINDER

By REGINALD EDWARD MORRIS

THE NECESSARY FUNCTION of rent in allocating land is not presently performed without costs—costs not only in production, but in social and political problems as well. The marginal productivity of land does depend on the capital and labor employed in the productive process, but conversely, the marginal productivity of labor or capital also depends on the land employed. Rent of a piece of land will approximate the differential between its productivity and the productivity of land at the extensive margin. Rent as a proportion of wealth will increase *vis-à-vis* wages and interest as the margin falls. It is quite possible for the land-pricing and allocation function to be more effectively performed without such cost. One way is by government through an improved land assessment and taxation system.¹ It is not necessary for people to give an income

¹ This approach to the allocation question is covered more fully in a future article of this series, as are some of the other points raised by Professor Jackson.

merely by owning title to land or for speculating in land. Rent of land is in origin a kind of public revenue. Treating it as such should make reduced taxes upon privately produced incomes possible. The combined effect of such reform would provide a fillip to production and induce more economic use of land. Increased production will not only benefit producers but also consumers by lower prices resulting from increased supply of goods.

It seems to me that it is Professor Jackson, not I, who assumes that land committed to a certain use cannot be transferred to another purpose in the future at an economically feasible cost by arguing the benefit of holding land idle in readiness for some more productive use in the future.² This question in any particular case would seem to hinge on a comparison of the total opportunity cost (not just in rent) of withholding land from present use, less the cost of reallocation from a present to a future higher use, versus the incremental productivity of the future use over the best use currently feasible. Since the total opportunity cost of foregone production and the relative worth of present versus future use affects the whole community in many ways both directly and indirectly related to land use, it seems questionable that the allocation can confidently be left almost entirely to the landlord, even assuming he acts rationally to optimize his own rent income to his own needs. Current and historic social and economic problems here and in other parts of the world, which are causally related to the land problem, strongly suggest that more objective influence, from a broader point of view, is needed on land-use decisions.

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² The landlord is encouraged and in effect subsidized by other taxpayers to hold this land idle by low taxation on land and relatively high taxation on development and other earnings. "A special release" recently, from Executive Reports Corporation, Englewood Cliffs, New Jersey, which publishes *Executive's Tax Desk Manual*, for example, reports, "... Thanks to the Tax Law, there's just about no other investment *any* man can make that commands the profit potential of *real estate*. In the hands of an aggressive younger man it's dynamite. Fortunes can be built almost overnight—using tax dollars and borrowed money. Real estate gives you a way of converting taxable income into *tax-free* income—of slashing the tax on other income—of holding the tax on profits to 25 per cent or less. If you have aspirations for real wealth, don't overlook the tax angles of real estate itself—no matter how little "cash" you have available. The Manual shows how huge profits can be made on a tiny investment under the tax rules *now* in effect!"

REVIEWS

Toward an Understanding of Consumer Behavior

By CAROLYN SHAW BELL

TO ECONOMISTS, the consumer is a man with a problem: how best to allocate his income among the goods, services, and forms of saving available. Economic analysis provides the consumer with a solution to his problem and refers to the allocation process as "consumer choice" or "decision-making" or, sometimes, "consumer behavior."

Yet in most economic models the consumer is assumed to be not very active. His "behavior" consists solely of sliding up and down indifference curves, advancing or retreating from one utility level to another, fitting marginal substitution rates to new price ratios with long-suffering patience as income and price changes joggle his precarious equilibrium. The consumer of the typical model never goes to market to buy goods and services of his choice. Instead, his decisions get lumped together with those of other consumers, and it is demand curves that have all the fun and games, and activity, in the market.

Professor Tucker's informative collection of essays¹ reminds us that the "behavioral sciences" are also concerned with many of the protagonists on the economic stage, and that if economists see "the consumer" and "the entrepreneur" as puppets, tied to the strings of market forces and maximizing motives, other social scientists construct models of human behavior which operate quite differently. In his foreword, Tucker asserts that "there is no theory of consumer behavior," which may come as something of a shock to economists. But the behavior under observation in this volume includes shopping, reading advertisements, going to stores, discussing purchase plans, accounting for tastes and preferences, saving money and spending money—all forms of activity, and all denied to the economist's consumer, confined to his conundrum of choice and its various elegant solutions. The case histories making up the bulk of this volume provide raw data on consumers' activities.

"Since none of the authors is sure where consumer behavior begins or ends or knows what is included, the cases are not parallel," says Professor Tucker, who argues (convincingly to this reader) that no field—whether psychology, economics, marketing, or sociology—offers a complete model for consumer behavior. A short but excellent list of suggested readings should tempt one into excursions in these fields: in economics the reader

¹ *Foundations for a Theory of Consumer Behavior*. By W. T. Tucker (New York: Holt, Rinehart and Winston, 1967), 158 pp., \$3.95.

is referred to Veblen, Marshall, Samuelson's *Foundations*, those works of Duesenberry and Friedman which expound on consumer behavior, Hicks on demand, Henderson and Quandt, and Clarkson's recent valiant attempt to treat consumer demand theory scientifically. These books are scarcely light reading, nor do they offer any easily acquired veneer of economic jargon. And the titles in the other fields are equally imposing. As his earlier book, *The Social Context of Economic Behavior*, indicated, Professor Tucker is that comparatively rare marketing professor whose explorations of other social sciences stem from knowledge rather than ignorance.

Neither Professor Tucker's analysis nor the case histories he presents, however, require any revision of conventional economic analysis dealing with the consumer. What this book does suggest to economists, and I think rather forcefully, is that they take a broader approach to policy questions involving consumer behavior. The economist advising on policy should recognize what Tucker and his contributors make clear—that the people in the economy who make the decisions analyzed in the microeconomic model of consumer choice also go to market to buy the things they have chosen; that the people, unlike the puppets, are engaged in many activities.

A case in point is the information problem. Here the conventional technical analysis does not yield really useful policy recommendations. Economists take the presence (or absence) of information as a measure of the degree of market competition. They also argue that consumers cannot maximize satisfaction without information about products or sellers. (It is also true that producers cannot maximize output or minimize costs if they do not know about possible sources of materials or labor, or if they lack access to existing technological knowledge. It follows, therefore, that information or its lack pertains to *all* input-output relations, not just to consumer behavior. Information plays, perhaps, the role of a lubricant in promoting efficiency in input-output operations.) But the validity of this analysis for the consumer of the typical model does not justify the wholesale support by economists of all sorts of "truth-in" legislation for the American consumer.

Acts to provide for truth-in-advertising or -lending or -packaging owe part of their widespread support to appealing titles—few people care to be counted as opponents of truth. Such legislation, however, typically calls for information *beyond* what has customarily been provided—percentage statements of interest as well as dollar charges, number of pounds per box as well as ounces, the higher price billed as well as "reduced to new low

prices" and so on. But since there is obviously nothing false in stating interest charges in dollars or package weights in fractions of ounces, the legislation aims not so much at "truth-in" as "the whole truth and nothing but the truth." In any case, the end result will be more information.

Now to the consumer, analyzing and securing information is an activity—like shopping or comparing or viewing advertisements or the other activities that the economist generally ignores. There are costs as well as benefits from this activity of pursuing the whole truth. The consumers analyzed in this book provide evidence that a decision *not* to press for information, or to dismiss the information at hand, may be rational in terms of costs and benefits. Most of the studies showed only a slight relation between the information available and consumer satisfaction or dissatisfaction, although consumers differed in their attempts to garner relevant facts and figures. And even the "careful shoppers" who studied catalogues and checked with other buyers, visited several stores and grilled salesclerks, limited their efforts because the costs involved in gathering information seemed to exceed the benefits. So the economist who jumps on the "truth-in" bandwagon may be led by the performers in Tucker's volume to be a bit more skeptical about the assurance that additional information equals additional benefits to consumers. In Massachusetts, a truth-in-lending act requiring that credit charges be stated in percentages of simple annual interest rates took effect in the late fall and winter of 1966-67. Experience so far suggests that consumers react languidly, if at all, to the new information available, and that the dollars and cents involved in monthly payments continue to be their principal consideration. One hopes that the experiment in Massachusetts will be analyzed in terms of individual decision-making as well as aggregate data. More information about the costs and benefits to the active consumer may prove more helpful than ambiguous appeals for truth.

A second area in which this book offers a challenge to the economist who advises on policy has to do with consumer tastes and preferences. (Indeed, one of the most salutary benefits of its case studies for any economic analyst is the refreshing reminder that consumers are people: behind those elegant indifference curves stands the social climber or dutiful teen-ager, the insecure college student, doting grandparent, or calculating bargain-hunter.)

Most educated people have different tastes from those of the noneducated. "Good taste" constitutes something that can be learned and in most cases has to be. Most economists have learned more than just economics and may have, therefore, "better" taste than the noneducated.

But none of this gives any economist the authority to voice his particular choice, or his superiority of tastes, as a matter of *economic* reasoning. Even Tibor Scitovsky's arguments for preferring his own tastes to those of the multitude must, in economic terms, be viewed as a plea for a particular type of market structure—that of aristopsony or a market where the demand of the upper class or those with “good taste” exerts power over the supply. The economist's recommendations for policies to ban billboards or otherwise limit advertising, to promote gardens and parks and theaters and cultural exchanges, do not always stem from the discipline of welfare analysis. Sometimes the economist lobbies for the gratification of his own tastes and preferences—which is certainly legitimate as long as it is not disguised as economic analysis.

The consumers in this little volume are very much concerned with tastes and preferences—they want what they want, and they are quite definite about what they want, in many cases about *why* they want it, and in most cases about the likelihood of their wants being satisfied. These questions assume major proportions—it may seem unlikely that “money is no object” (in the same way) to a six-year-old American boy, a Mexican peasant, a professor of sociology, and a civil engineer, yet these consumers were alike in downgrading price and income considerations in favor of getting what they wanted. There is more than a suggestion here to the economist that his emphasis on the quantifiable data of dollars may be misguided and that he needs to look at tastes and preferences with more respect. The cases also point up one major difficulty with the economist's model, namely its assumption that income or purchasing power and tastes and preferences refer to the same consumer.

In one report of a family who bought bedroom furniture for two boys, aged five and seven, obviously it was the parents who controlled the income and hence the ultimate purchase decision, but the boys provided a substantial amount of information, strong preferences, and a major contribution to the choice of product. In another case, that of a high-school junior who purchased a dress, the report illustrates the critical significance to the consumer of a choice that reflected not only her tastes but those of the aunts with whom she lived. The girl's purchasing power—and therefore her ability to satisfy her own tastes—depended to a considerable extent on her catering to her aunts' tastes. Of course, the economist has a prescription for both these cases: define “the consumer” as a consumer unit or family with joint income whose expenditures amount to 75 or 80 per cent of total income and expenditures. Such a precise statement, with its reliance on quantitative delineation, begs the question. The point is

that in both these cases, and in many others, consumers were very active and undertook much research and analysis and evaluation solely within the realm of tastes and preferences. The price-income dimensions which the economist analyzes in such minute detail may very often be irrelevant to the consumer's decision, in that they form outer boundaries to his field of activity in seeking to satisfy his tastes and preferences. Consumers may devote all their energies to the complexities (and possibly agonies) of qualities and preferences without ever running up against the quantitative restraints. And as such individual considerations show up over and over again, the analyses of this book remind the economist to distinguish, scrupulously, between his advice as a skilled technician and a person with decided tastes.

Many students of elementary economics complain that, while examples of macroeconomic analysis abound in the pages of the daily newspapers, microeconomics seems peculiarly abstract and sterile. Most teachers know that cases or problems appropriate for beginners and dealing with price analysis, market structure, or equilibrium decision-making by firm or household are practically nonexistent. Tucker's *Foundations for a Theory of Consumer Behavior* will not entirely remedy this lack, but it should provoke some lively discussion of economic analysis while sharpening the student's understanding of the nature and purpose of an economic model.

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Relations Between Education and Fertility

DOES GOING TO COLLEGE influence the number of children women desire? Does it affect their intent to plan the number and spacing of their children? Or do women come to college with their attitudes already fixed? Charles F. Westoff and Raymond H. Potvin have attempted to answer these and other questions in *College Women and Fertility Values*.¹

Professor Westoff, of the Department of Sociology and Office of Population Research at Princeton University, and Father Potvin, a Roman Catholic priest and professor of sociology at Catholic University, were stimulated initially by reports from earlier studies about the relatively high fertility of Catholic women who had attended Catholic colleges. Also, the fact that the rise in fertility of American women in general during the 1950's corresponded with an increase in the numbers receiving higher education, despite the usual association of higher education with

¹ *College Women and Fertility Values*. By Charles F. Westoff and Raymond H. Potvin. Princeton, New Jersey: Princeton University Press, 1967.

low fertility, led the researchers to include in their study women of all religions from all kinds of colleges and universities.

Comparisons of freshmen and seniors in a national probability sample of 47 institutions indicated that higher education in general seems to exert little influence on fertility values of women, with the exception of Catholic women who graduate from Catholic high schools and switch to non-sectarian colleges, an experience that appears to reduce family-size orientations. Otherwise, the wide differences in the family-size orientations of seniors in their early twenties differs little from that of freshmen. These numbers range among Catholics from a high of 5.4 children on the average desired by Catholic seniors whose education has been exclusively in Catholic institutions to a low of 4.0 for Catholic seniors in non-sectarian institutions whose previous education has been exclusively secular. Nor was any effect evident on the family-size preferences of non-Catholic seniors which ranged from a high of 4.8 children desired by Mormon women to the lows of 3.2 and 3.1 children preferred by Jewish women and women reporting no religious preference. Other evidence suggests that comparable older groups of married women are actually having close to these numbers. All of these family-size preferences, if realized, exceed substantially the average needed for population replacement.

Images of what constitutes a "small" and "large" family also vary sharply by religion. Fifty per cent of Jewish college women define the "small" family as one child compared with 35 per cent of Protestant and only 15 per cent of Catholic women. At the other extreme, 43 per cent of Jewish, 23 per cent of Protestant and 11 per cent of Catholic women define a "large" family as consisting of four children or less.

[From the Publisher.]

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